



# CORE CAPABILITIES

## CREDIT

### EXPERTISE

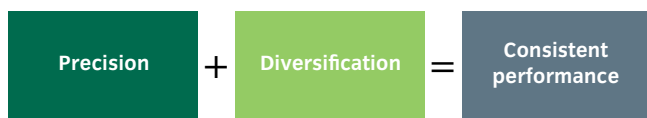
Insight is one of the UK's largest active fixed income managers. This market presence is attributable to what we believe are a range of industry-leading processes which target the most attractive risk-adjusted returns from a broad range of opportunities and over a variety of time horizons and market conditions.

Our Credit Team has an average industry experience of 13 years<sup>1</sup> and a broad range of expertise across the credit market covering investment grade, high yield, loans, distressed debt and asset-backed securities.

<sup>1</sup> As at 31 December 2011.

### INVESTMENT PHILOSOPHY

Insight's fixed income investment philosophy focuses on the delivery of consistent performance by virtue of two key investment principles: **precision** and **diversification**.



**Precision:** in assessing investment opportunities, we seek to include only those elements of market risk that we consider attractive and aim to eliminate unintended risks.

**Diversification:** we seek to add value through active management of risk and return across a broad range of investment opportunities using proprietary management techniques.

### CREDIT INVESTMENT PROCESS

Our credit strategy is a top-down approach that combines long-term strategic forecasts, shorter-term tactical views and observations of market trends.

#### Market allocation

We form a view on bond market allocation to identify the most compelling investment strategies for our clients.

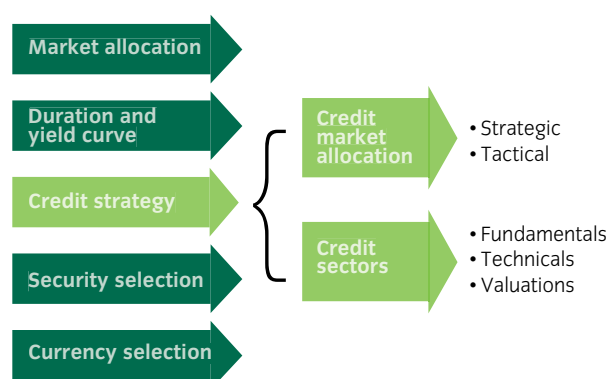
Firstly, we consider what is the most attractive part of the bond market with regard to expected total returns: e.g. government bonds versus corporate bonds.

Secondly, we form a view on which type of corporate bond has the best risk/reward characteristics: e.g. investment grade versus high yield bonds.

Following these decisions, we form our credit strategy view which is based on two key factors: strategic and tactical value.

**Strategic forecast:** the strategic forecast for the market over the next twelve months is based primarily on fundamental economic analysis of our credit market segments.

#### Credit strategy view



Please note the value of investments and any income will fluctuate and is not guaranteed (this may be partly due to exchange rate fluctuations). Investors may not get back the full amount invested.

This proprietary analysis is broken down into two parts: Firstly, our in-house credit strategist quantifies expected loss arising from defaults (adjusted for recovery value) using a number of fundamental variables, such as economic growth, corporate surplus and credit conditions. This analysis seeks to identify whether investors are adequately compensated for the risks of default in all types of credit.

Secondly, the Credit Analysis Team assesses the additional risk premium required given current market conditions such as the market's appetite for risk, volatility and global liquidity. Together, these steps provide us with the market spread forecast from which we can calculate an expected excess return.

**Tactical view:** the next step in the decision-making process is our tactical view of the market place, typically up to three months. This takes investor positions and sentiment into account when considering how to time the allocation of the risk budget to credit.

### Sector strategy

Our sector allocation recommendations are based on the collective views of the analysis team on fundamentals, technicals and valuations for each of our predefined sectors. These views are then each assigned a rating of under/over/neutral-weight.

## STOCK SELECTION – CREDIT UNIVERSE

The universe for credit within our fixed income portfolios covers four main areas: investment grade, high yield, loans and asset-backed securities. Within these areas we also consider the merits of cash bonds versus the derivative alternative.

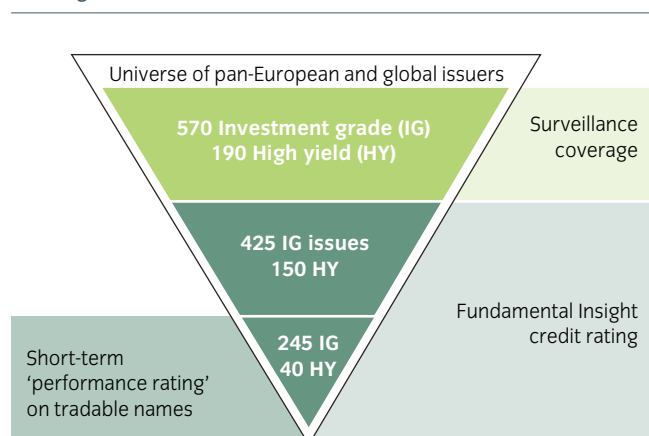
The credit universe consists of approximately 570 investment grade issuers, 190 high yield issuers and 1,300 asset-backed issuers. We apply various filters to the universe to arrive at a smaller group of investable credits (currently around 425 for investment grade issuers) which then undergo fundamental analysis by the credit analysts. This leaves a smaller group of around 245 investment grade issuers which are subject to relative value analysis.

To identify value we screen from two perspectives:

- Where an edge can be gained from fundamental analysis
- Identify tradable issues for relative value opportunities

Our credit universe is screened on a weekly basis by the Credit Analysis Team when research priorities are reassessed in consultation with portfolio managers.

### Coverage model



Although some elements of our credit research are qualitative in nature based on our team's extensive experience in interpreting data analysis, we also employ a range of quantitative tools to assist us in filtering information and to help us identify opportunities.

## RISK MANAGEMENT AND ANALYSIS

**Risk management:** managing and understanding portfolio risk is a strategic objective at Insight and a key factor in achieving consistent performance. We approach this using a proprietary system called 'units of risk'. This system allows us to appropriately size the risk we take in the portfolio via different investment decisions according to each client's risk profile.

**Credit risk analysis:** to evaluate the likelihood of future changes in a company's credit rating and also the potential for a sudden change in credit quality, our credit analysts conduct a credit risk analysis. Particular attention is paid to the scoring of key risks using a checklist. This checklist examines important sources of risk which can lead to a sudden deterioration in credit quality.

This checklist covers liquidity risk, contingent liabilities, regulatory risk, litigation risk, governance and accounting, and event risk. These factors are scored on a scale of one to five, with higher numbers indicating more risk and scores greater than four highlighting areas of significant concern.

Our credit analysts also use the screening system Governance Metrics International to assist them in monitoring emerging governance, social or environmental risks such as new regulatory requirements or consumer trends. Unless all the components of risk are analysed and evaluated to the satisfaction of the credit analyst and the broader credit team, we will not consider a purchase for our clients. All corporate issuers we analyse are evaluated in this way before a purchase is made.

## STRATEGIES AND PERFORMANCE

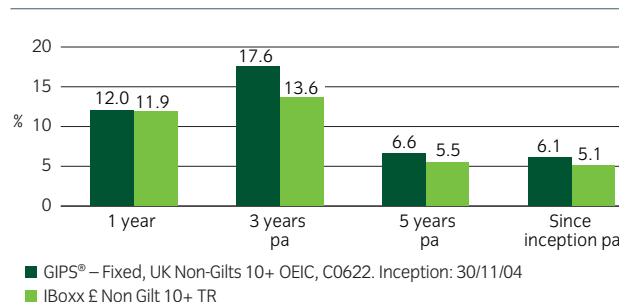
Please find below a selection of our credit strategies:

### UK corporate long maturities bonds

- This strategy has a mix of investment grade corporate bonds drawn from our pan-European and global universe and also may permit high yield, emerging, asset-backed securities and currency to improve investment returns and diversification.

### UK corporate long maturities bond composite

Performance in GBP terms 31/03/12

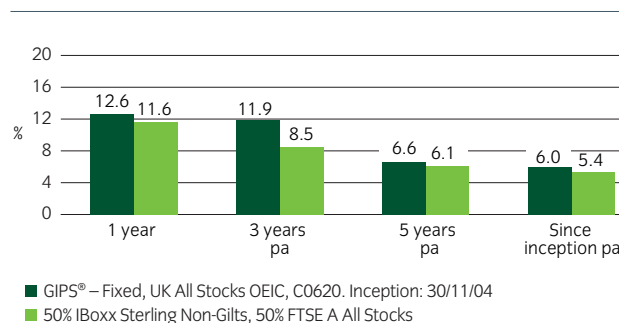


### UK aggregate bonds

- This strategy typically has a mix of gilts and corporates and may also invest in high yield, index-linked gilts emerging market debt and currencies as a way of boosting returns and increasing diversification.

### UK aggregate composite

Performance in GBP terms 31/03/12

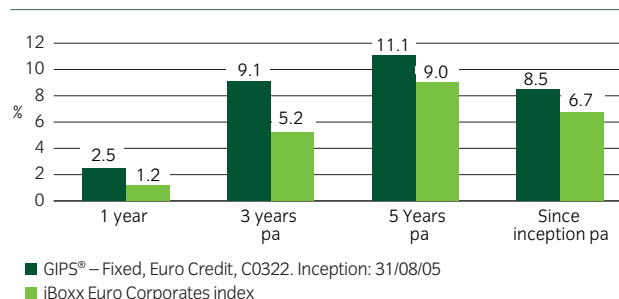


### European credit

- This strategy invests actively across the credit spectrum in Europe, looking to profit from opportunities in both the bond and derivative markets. Strategies in duration and yield curve provide additional sources of return, although the principal source of return remains sector and stock selection.

### European credit composite

Performance in GBP terms 31/03/12

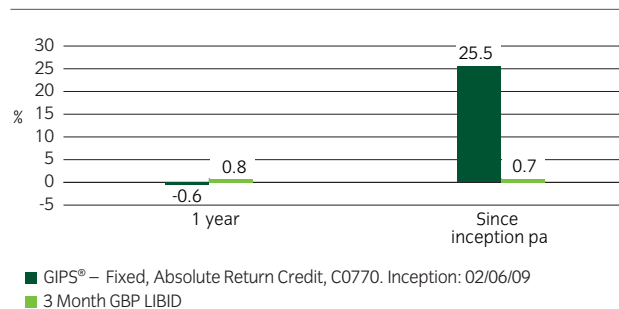


### Absolute Insight credit

- 'Best ideas' in credit: this is a multi-strategy investment approach searching for idiosyncratic credit opportunities, with the ability to take long or short directional views, while targeting high risk-adjusted returns primarily from alpha opportunities.
- This strategy is able to invest in investment grade and high yield corporate bonds, asset-backed securities, loans and cash instruments. In addition, a wide range of derivatives are used both for investment and hedging purposes.

### Absolute Insight credit composite

Performance in GBP terms 31/03/12



## THE TEAM

Our investment professionals are specialists, not generalists. Each has their own focused area of market expertise, which gives us the skills and resources to analyse every investment opportunity available to us and to maintain the diversity and precision which lie at the heart of our long-term track record. This means that individuals within specialist teams are encouraged to focus on a particular area of the market and put findings and recommendations to their team.

Our key credit personnel have an average industry experience of over 13 years<sup>2</sup>. They are supported by Insight's highly-focused and specialised team of credit analysts. The team is arranged with each analyst taking responsibility for individual market sectors for which detailed credit analysis and report writing is undertaken.

## ABOUT INSIGHT INVESTMENT

Insight Investment is a specialist asset manager at the forefront of designing investment solutions to meet our clients' needs. Launched in 2002, Insight is responsible for assets under management of £170.2 billion<sup>3</sup> across fixed income, liability driven investment, cash management, multi-asset, absolute return and specialist equity strategies.

We manage money for pension funds, sovereign wealth funds, insurance groups, local government, charities and other financial institutions.

<sup>2</sup>As of 31 December 2011.

<sup>3</sup>As of 31 March 2012 represented by the value of physical securities and liability benchmarks.

## Our awards

We have been recognised as a leader in our field with successes marked by industry awards and accolades.

### Hedge Fund Intelligence

Absolute UCITS Fund of the Year: Absolute Insight Credit Fund

### What Investment Unit Trust Awards

Absolute Credit Fund: Best Newcomer 2011

### UK Pensions Awards

Currency Manager of the Year 2010

### UCITS Hedge Awards

Best Long/Short Fixed Income Fund (Absolute Insight Credit Fund) 2010

### FT Business Pension and Investment Provider Awards

Overseas Fixed Income Manager of the Year 2010

Currency Manager of the Year 2010

Manager of Managers of the Year 2008

UK Fixed Income Manager of the Year 2007

### Geld Magazin Awards

First place for Absolute Insight Credit Fund (income and currencies category) 2011

### European Pensions Awards

Fixed Income Manager of the Year 2009 and 2010

### Specialist and Alternative Investment Manager Awards

Eurozone Fixed Manager of the Year (Government Bonds) 2007

Eurozone Fixed Income Manager of the Year (Govt Bonds and Non-Govt) 2007

### Financial News Awards

Fixed Income Manager of the Year 2007

### Euro Hedge Awards

Best UCITS Fund (Absolute Insight Credit Fund) 2010, 2011

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