


# ABSOLUTE INSIGHT UK EQUITY MARKET NEUTRAL FUND

A SMOOTHER PATH TO LONG-TERM GROWTH

► A BNY MELLON COMPANY<sup>SM</sup>





In today's uncertain economic environment, investors are actively seeking products that provide positive returns irrespective of market direction.

The Absolute Insight UK Equity Market Neutral Fund is part of Insight Investment's range of absolute return strategies which aim to deliver attractive positive returns over rolling 12-month periods in all market conditions. The Funds have been crafted to offer investors the ability to capture the best ideas for investment in their respective asset classes, implemented in a way that seeks to generate lower volatility than traditional long-only approaches, to provide investors with a smoother path to long-term growth.

The UCITS structure of the Fund provides assurance of strong governance and regulation, while enabling the investment team to make use of a broad array of investment tools and techniques to optimise risk-adjusted returns.

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# INTRODUCING THE ABSOLUTE INSIGHT UK EQUITY MARKET NEUTRAL FUND

USING A MARKET NEUTRAL APPROACH, THE ABSOLUTE INSIGHT UK EQUITY MARKET NEUTRAL FUND TARGETS ATTRACTIVE RISK-ADJUSTED RETURNS IN ALL MARKET CONDITIONS.

The Fund takes positions by identifying stocks that we believe are mispriced relative to similar stocks or the broader market. Our specialist team then implements positions through paired trades<sup>1</sup>, whereby every investment, whether long or short, is paired with an appropriate hedge to focus exposure on specific risk factors while minimising others.

This approach is designed to provide a smoother path to long-term growth, generating positive returns while seeking to minimise volatility.

<sup>1</sup> See page 6 for an explanation of paired trades.

## INVESTMENT PERFORMANCE

The Fund has delivered steady, positive returns over the long term, maintaining low volatility regardless of equity market activity since its launch. Its performance demonstrates the ability of the Fund's investment team to seek out attractive investment opportunities while minimising exposure to market direction. The latest performance can be found on the Fund's factsheet at [www.insightinvestment.com](http://www.insightinvestment.com). Past performance is not a guide to future performance.

## FUND BENEFITS AT A GLANCE

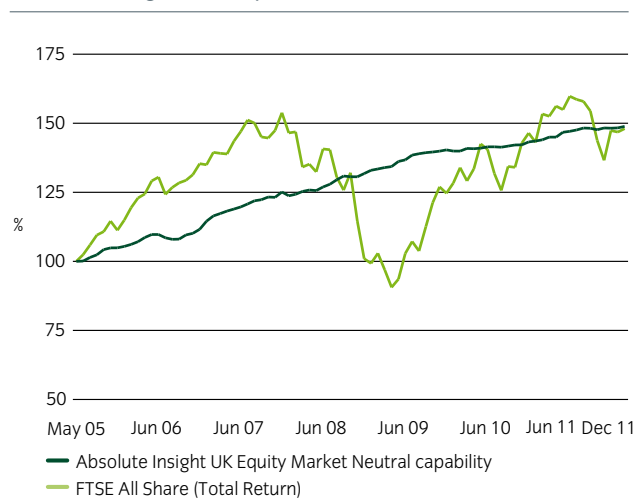
- **Stability:** targets positive returns over rolling 12-month periods through all market conditions
- **Lower volatility:** aims to produce a smoother path to returns than a traditional long-only approach
- **Diversification:** seeks returns that do not correlate with mainstream asset classes and strategies
- **Liquidity:** daily liquidity allows investors to place and withdraw money at any point
- **Strong governance and regulation:** the Fund's UCITS structure ensures transparency and liquidity within a clear regulatory framework
- **Expertise:** managed by a team of award-winning specialists with a proven track record

## AWARDS AND RATINGS

- Best Absolute Return Fund 2011  
(Investment Week Fund Manager of the Year Awards)
- Standard & Poor's AA, OBSR A

Please note that the value of investments and any income from them will fluctuate and is not guaranteed. Investors may not get back the full amount invested.

Chart 1: Performance of the Absolute Insight UK Equity Market Neutral Fund against UK equities



Source: Insight and Bloomberg. Data as at 31 December 2011. Fund returns shown gross of fees. Past performance is not a guide to future performance. See footnote on page 11 concerning the Fund's performance data. Please refer to the Fund's latest factsheet for up-to-date monthly performance.

# THE BENEFITS OF A MARKET NEUTRAL APPROACH

A MARKET NEUTRAL STRATEGY USES LONG AND SHORT POSITIONS TO TARGET RETURN OPPORTUNITIES WHILE MINIMISING MARKET RISK.

A portfolio can directly target attractive investments and remove potential sources of volatility by holding long and short positions that offset each other. This greatly increases the likelihood of steady, positive returns over the long term irrespective of market direction.

A market neutral approach offers two clear benefits over a traditional long-only strategy.

First, a long-only strategy usually seeks to outperform a benchmark, such as the FTSE 100 index. This means a portfolio taking this approach could lose money in a falling market, but still have outperformed as long as it lost less than its benchmark. A fund using a market neutral approach is not tied to the performance of an index, and always aims for a positive return.

Second, many traditional asset classes are correlated with each other. This means that a portfolio can suffer substantial losses in falling markets even if it is supposedly diversified across several investments. Using a market neutral approach, a portfolio can benefit even when markets fall in value, meaning it is unlikely to correlate with mainstream markets.

A market neutral approach can therefore provide investors with a steady positive return over the long term and a means to improve the diversification of their portfolio. Following the market neutral approach does mean that a fund may lag long-only benchmarks in strong rising markets.

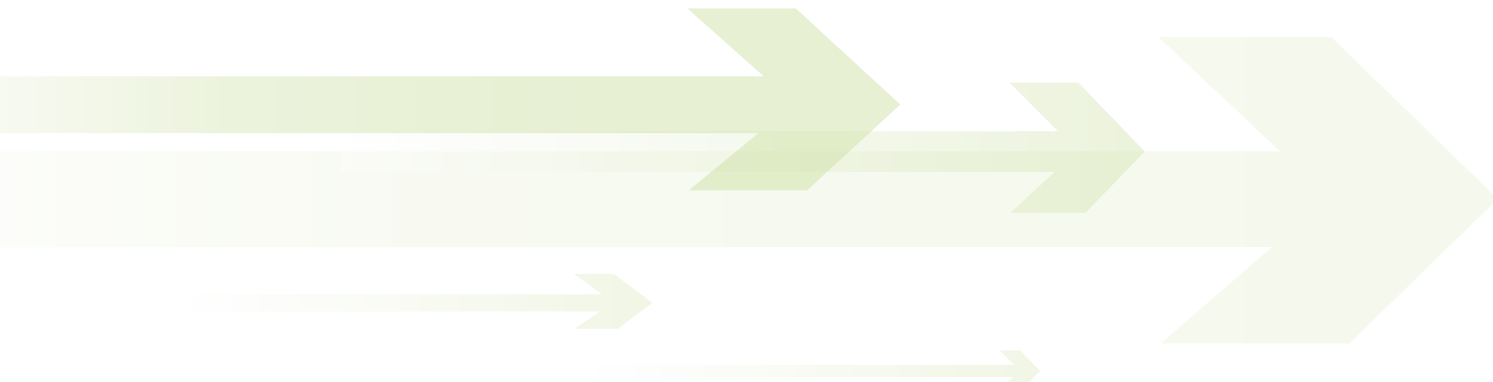


Table 1: A successful market neutral approach: positive returns at low volatility over five years

	Cumulative return	Volatility	Maximum drawdown
Absolute Insight Equity Market Neutral Fund (net)	20.88%	1.52%	-1.02%
UK equities <sup>2</sup>	6.15%	17.23%	-41.09%
Corporate bonds <sup>3</sup>	26.89%	6.06%	-8.42%
Gilts <sup>4</sup>	45.42%	6.19%	-4.53%
Property <sup>5</sup>	-7.93%	6.28%	-36.72%
Hedge funds <sup>6</sup>	-13.09%	7.59%	-25.21%

Source: Insight and Bloomberg. Data as at 31 December 2011. Past performance is not a guide to future performance. See footnote on page 11 concerning the Fund's performance data. Please refer to the Fund's latest factsheet for up-to-date monthly performance.

Table 2: A successful market neutral approach: low correlations with mainstream asset classes over five years

	Correlation with Absolute Insight UK Equity Market Neutral Fund
Absolute Insight Equity Market Neutral Fund	1
UK equities <sup>2</sup>	0.02
Corporate bonds <sup>3</sup>	0.06
Gilts <sup>4</sup>	-0.03
Property <sup>5</sup>	-0.21
Hedge funds <sup>6</sup>	0.1

<sup>2</sup> FTSE All Share (Total Return) index

<sup>5</sup> IPD (GBP) index

<sup>3</sup> ML Sterling Non-Gilts All Stocks index

<sup>6</sup> HFR Global Hedge Fund USD index

<sup>4</sup> FTSE British Government All Stocks index

# WHY THE ABSOLUTE INSIGHT UK EQUITY MARKET NEUTRAL FUND?

THE ABSOLUTE INSIGHT UK EQUITY MARKET NEUTRAL FUND  
USES A BESPOKE INVESTMENT PROCESS FOCUSED ON PAIRED TRADES,  
WHICH CAN PROVIDE ATTRACTIVE GROWTH WHILE MINIMISING RISK.

The Fund aims for steady positive returns by identifying opportunities for growth primarily in the UK equity market. The Fund reduces the potential for volatility by identifying and focusing on specific risks that apply to each investment, leaving the investor with a portfolio of targeted growth and low market direction risk.

Built on a base of cash and near-cash instruments, the Fund uses paired trades, in which each lead investment (long or short) is paired with a hedge to target specific risk factors, while minimising unwanted risks such as the impact of movements in the wider markets, industry sectors, or currency valuations. For example, if the Fund Manager invests long in Tesco and pairs it with a short holding in the FTSE 100 index, any market volatility that affects both Tesco and the index will be neutralised. This leaves the portfolio exposed only to Tesco-specific risk and any risk associated with investing in the retail sector.

The Fund can invest in UK equities, equity-related securities, derivatives and collective investment schemes. It can also invest up to 20% of its assets in non-UK holdings.

## INVESTMENT PROCESS

The Investment Team applies a proven and repeatable investment process to achieve its goals, implemented by our experienced managers within a clear, rigorous risk management framework.

### Idea generation

The Team decides which stocks warrant detailed research by interacting with companies, industry specialists and the wider investment community. Quantitative screening is also used as a source of potential ideas. Sectors react in different ways to economic conditions, and the team takes the different characteristics of markets and industries into account as it seeks out the most attractive opportunities.

Chart 2: The investment process



Source: Insight Investment.

### Fundamental analysis

The Fund Managers and Analysts value their investment ideas using measures appropriate to the prevailing industry and market context: for example, in difficult market conditions it may be more helpful to consider the value of a company's existing assets rather than earnings forecasts. The Team includes their own industry and economic forecasts within their analysis. To rate a stock as a potential lead investment, the Team must conclude that the current market price misvalues the holding relative to another stock, its sector, or the broader market.

### Tactical decision

A misvalued stock is only enough to justify an investment decision if the market is expected to correct its valuation. The Team undertakes a detailed analysis to identify what could cause the market to revalue the stock. If they can identify a catalyst for change they expect will apply within the next three to six months, they will prioritise it for investment.

### Hedge identification

After confirming an appropriate lead investment, the Fund Managers select a hedging position to isolate the specific risks that they wish to target, while seeking to minimise other risks. Typical hedges include a broad market index, an index that tracks a specific subset of an index, or a specific stock.

## THE RISK MANAGEMENT APPROACH

EFFECTIVE RISK MANAGEMENT IS CRUCIAL FOR ANY INVESTMENT STRATEGY THAT AIMS TO SEEK GROWTH WHILE PRESERVING CAPITAL.

Insight is dedicated to using the most sophisticated risk analysis and controls available to help ensure that investment strategies perform in line with expectations.

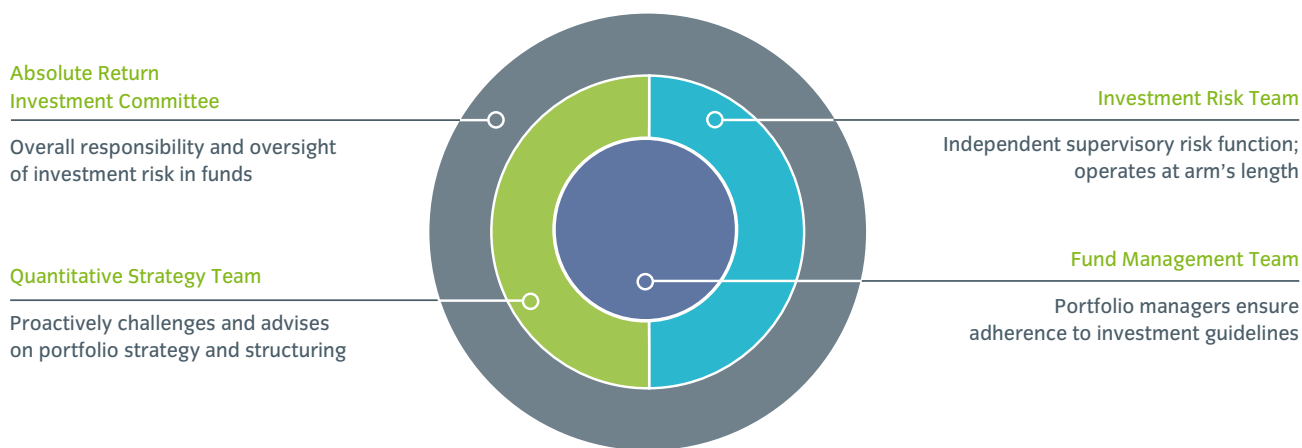
Risk management is built into the core of every investment process at Insight and is fully embedded into the way underlying strategies are run. To ensure that controls are maintained and consistently applied, Insight has a sophisticated multi-dimensional approach to risk management. The Investment Teams on the Absolute Insight range are monitored and supported by Insight's Absolute Return Investment Committee (ARIC), the Quantitative Strategy Team, and the company's overall Risk Management Team.

The ARIC meets monthly and is responsible for setting internal risk and investment guidelines which are

monitored daily. The Quantitative Strategy Team works with the portfolio managers, the Investment Risk team and the ARIC to tailor the fund management frameworks for each fund, thereby increasing the understanding and interpretation of the portfolios through quantitative measures. They meet with the portfolio managers on a regular basis to discuss detailed quantitative reports in the light of the current market environment. Key observations, concerns and suggestions are formally raised at the ARIC meetings, at least once a month, and on a daily basis where necessary.

Insight's overall Risk Management Team plays a supervisory function and is responsible for ensuring compliance with relevant limits and for initiating action in the case of any breach.

Chart 3: Absolute Insight's risk management framework



A key strategic objective at Insight is to invest in the most comprehensive and rigorous risk measurement and control tools available in the investment industry. We believe our approach, systems and methodology are optimal for our clients and portfolio managers. The Absolute Insight UK Equity Market Neutral Fund is structured under UCITS rules, and is subject to a range of standard regulatory risk-management criteria.

The following primary limits apply to the Fund:

- Net exposure limit:  $\pm 10\%$  of NAV
- Gross exposure limit: 200% of NAV
- Predicted portfolio beta:  $\pm 0.15$

The Fund also uses stop-loss triggers to preserve capital by reducing the impact of negative positions. Stop-loss review triggers are applied to each open trade within the Fund. If a review trigger has been breached, notification is sent to the relevant parties, requiring the Fund Managers to review the position and respond accordingly.

## INVESTMENT TEAM



**Andrew Cawker**

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Portfolio Manager  
Head of Specialist Equities

Andrew joined the Equity Team at Insight in April 2003 and is responsible for the management of equity long/short portfolios. Prior to Insight, Andrew was an Associate Partner at Invesco Global Asset Management where he was involved in developing specialist UK equity business alongside the management of a range of UK and global equity portfolios. Andrew began his investment career at Prudential Portfolio Managers in 1988.



**Iain Brown**

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Portfolio Manager  
Specialist Equities

Iain joined the Equity Team at Insight in July 2002 and is responsible for the management of equity long/short portfolios. Before joining Insight, he spent six years at Norwich Union Investment Management, latterly as Head of Institutional Investment. Prior to this he spent eight years at CIN/Goldman Sachs as a portfolio manager. Iain began his career as an investment analyst with Credit Lyonnais in 1987.



**David Headland**

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Portfolio Manager  
Specialist Equities

David joined Insight in August 2010 as a portfolio manager within the Equity Market Neutral Team. This followed a brief spell with a European equity research boutique after his previous role at Insight from 2002 to November 2009 as co-portfolio manager for a European equity market neutral fund. David started his career at Norwich Union in 1998.



**Richard Howarth**

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Portfolio Manager  
Specialist Equities

Richard joined the Equity Team at Insight in January 2002 and is responsible for the management of equity long/short portfolios. Prior to Insight, he held a fund management role at Brewin Dolphin for five years. He began his career as trainee portfolio manager with Capel-Cure Myers Capital in 1994.

Additional team members include specialist researchers Russell Wright and Matthew Cooke, dealer Stephen Quantrell and product manager Matthew McKelvey.

# FUND DETAILS

<b>Scheme type</b>	Open-Ended Investment Company, UCITS compliant
<b>Objective</b>	The investment objective of the Fund is to provide attractive, positive absolute returns in all market conditions
<b>Benchmarks</b>	Sterling share classes: 3-month LIBID (defined as LIBOR minus 0.125% per annum) Euro-hedged share classes: 3-month EURIBOR (EURIBID minus 0.1% per annum)
<b>Domicile</b>	Ireland
<b>Listing</b>	Irish Stock Exchange
<b>Umbrella scheme</b>	Absolute Insight Funds plc (Ireland-domiciled Open-Ended Investment Company)
<b>Investment universe</b>	Predominantly UK equities, equity-related securities, derivatives and collective investment schemes, cash and near-cash instruments
<b>Currency</b>	Sterling, Euro
<b>Share classes</b>	Institutional and retail share classes are available. These are subject to different minimum investment amounts and annual management charges (AMC)
<b>Dealing frequency</b>	Daily, midday
<b>Valuation basis</b>	Swinging single price
<b>Fee schedule</b>	AMC 1.5% per annum <sup>7</sup> 10% of any performance net of AMC in excess of the benchmark return, subject to high water mark

<sup>7</sup> This charge relates to the standard retail share class. Details of institutional share classes are available upon request.

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.

Performance calculations in this brochure have, unless otherwise stated, used the prices from the Absolute Insight Plus UK Equity Market Neutral Fund until 28 February 2007. This Fund was domiciled in Cayman and run in the same way as the Absolute Insight UK Equity Market Neutral Fund, an Ireland-domiciled fund whose performance we show from 31 December 2007 to 31 December 2011. The Cayman fund's performance has been incorporated to show performance since inception of Insight Investment's capability.

## ABOUT INSIGHT INVESTMENT

INSIGHT INVESTMENT IS A LEADING ASSET MANAGER FOCUSED ON DESIGNING INVESTMENT SOLUTIONS TO MEET OUR CLIENTS' NEEDS. LAUNCHED IN 2002, INSIGHT IS RESPONSIBLE FOR ASSETS UNDER MANAGEMENT OF £168.3BN<sup>8</sup> ACROSS ABSOLUTE RETURN, FIXED INCOME, LIABILITY-DRIVEN INVESTMENT, CASH MANAGEMENT, MULTI-ASSET AND SPECIALIST EQUITY STRATEGIES.

Insight is committed to providing a full spectrum of investment and risk management solutions, partnering with clients to build sophisticated portfolios to achieve their desired outcomes. Insight's ability to create tailored and highly cost-effective solutions makes our proposition compelling for a wide range of investors, including individuals, pension schemes, insurers and sovereign wealth funds.

Our award-winning investment and client service teams have a long-standing record that demonstrates their success, whether a client needs a wide-ranging holistic solution or a specific strategy to achieve their goals.

### AWARDS

In 2011 Insight won 10 industry awards, bringing its total to 35 over the last five years. Last year's awards included European Specialist Investment Firm of the Year (Funds Europe Awards), LDI and Structured Solutions Manager of the Year (Financial News Awards), LDI Manager of the Year (Pension and Investment Provider Awards), Currency Manager of the Year (UK Pensions Awards) and Derivatives Manager of the Year (Global Pensions Awards).

<sup>8</sup> As of 31 December 2011, represented by the value of physical securities and liability benchmarks.

# FIND OUT MORE

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ASSET MANAGEMENT

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