

Fund update: Absolute Insight Credit

Fund reaction to market volatility



11 August 2011

Exceptional levels of market volatility

The Absolute Insight Credit Fund has responded pragmatically to the sell-off in markets seen so far in August. Exposure has been reduced and liquidity increased while the widespread market uncertainty continues. We summarise below the steps taken by the Fund during a difficult month, one where the manager has positioned the Fund to:

- continue to realise the value within the portfolio through the carry;
- participate in investment opportunities arising from the wider market turbulence; and
- maintain sufficient levels of liquidity to be able to take advantage of investment opportunities as markets evolve.

Despite the recent turbulence seen in financial markets, the Fund is strongly positioned to achieve its objective of attractive positive returns over 12-month rolling time periods. The manager sees significant value in the portfolio and further opportunities in the wider market as this environment develops.

Response to market conditions in early August

The portfolio has produced negative returns of 3.7%* so far this month and 4% since the beginning of May. This compares with the 17.5% loss on the FTSE 100 index, 12% drop in high yield bonds and 3.5% fall in investment grade corporate bonds since May. Bond prices have outperformed equities over this period as expectations of the next rise in UK and US interest rates receded considerably.

In accordance with the Fund's risk management principles, risk limits were reduced to reflect the drawdown status. As at the date of this note, the results of the actions taken by the Fund this month are as follows:

- Gross positions were cut to 180% from 210% at the end of July.
- Net positions were trimmed to 48% from 62% at the end of July.
- Exposure to asset-backed securities (ABS) has been cut to below 35% and should drop to 25% in coming weeks based on forthcoming maturities. ABS exposure topped 45% at the end of July.
- Net allocation to high yield issues of longer than one year has been reduced to 10% from 20% at the end of July.
- Net financials exposure remains at 16.3%, spread across the Nordics, Netherlands, Germany and France (only 1% exposure).
- Shorts represent 67% of the Fund's NAV and are split equally between government credit default swaps (CDS) and corporate CDS.
- The Fund has a net short position in eurozone periphery countries such as Italy, Spain, Portugal and Greece.
- Shorts are 4.4 years in duration.
- Directional risk on spread duration is -0.7 years.

Market movements may cause the value of investments to go down as well as up and you may not get back the amount originally invested. Past performance is not a guide to future performance.

Outlook

By having taken proactive, rapid action in response to the evolving market conditions, we believe the risk of further drawdown on the Fund has been considerably mitigated. We are confident that the Fund's defensive

positioning and tactical high cash balance will help provide a degree of protection to investors in the short term whilst ensuring we are well positioned to aim for significant outperformance over the rest of this year.

* The performance of the portfolio is based on a mid-mid price basis for Sterling funds. The 'B1p' class shares have returned -4.31% and 'S' class shares -4.57% this month. The difference between the mid-mid price and the 'B1p' and 'S' class share prices reflects the 'swinging single price' pricing basis used by the Fund.

Note 1: All performance data has been calculated as at 10 August 2011.

Note 2: For an explanation of terms used in this note please go to <http://www.insightinvestment.com/uk/investmentglossary>

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Further details of the Absolute Insight Credit fund, including the prospectus and simplified prospectus are available from www.insightinvestment.com.

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