

Annual Report and Financial Statements  
**Insight Investment**  
**Funds-of-Funds II ICVC**



## Contents

	Page
<b>Authorised Corporate Director’s Report</b>	1
<b>Statement of Authorised Corporate Director’s Responsibilities</b>	1
<b>Authorised Status</b>	1
<b>Statement of Depositary’s Responsibilities</b>	2
<b>Certification of Accounts by the Authorised Corporate Director</b>	2
<b>Independent Auditor’s Report to the Shareholders of Insight Investment Funds-of-Funds II ICVC (‘the Company’)</b>	3
<b>Absolute Insight</b>	4
<b>Further information</b>	19

## Authorised Corporate Director's Report

This report provides information on the financial statements of the Insight Investment Funds-of-Funds II ICVC ("the Company") and reviews and reports the financial results of the Company for the year ended 31 December 2011.

Please review the Investment Report for the Company's initial Fund, Absolute Insight, within the Economic and Market Review section in the main body of the accounts.

### Recent Developments

As part of an internal re-structuring in 2011 The Royal Bank of Scotland Group plc transferred its Trustee and Depositary Services business from The Royal Bank of Scotland plc to National Westminster Bank plc and consequently National Westminster Bank plc was appointed as depositary of the Insight Investment Funds-of-Funds II ICVC ("The Company") on 14 October 2011.

As depositary, National Westminster Bank plc will have the same duties and responsibilities as The Royal Bank of Scotland plc and the change of depositary will have no impact on the way the Company is operated.

## Statement of Authorised Corporate Director's Responsibilities

The Open-Ended Investment Companies (Investment Companies with Variable Capital) Regulations 2001 and the Rules of the Financial Services Authority ("FSA") contained in the FSA's Collective Investment Schemes Sourcebook (COLL), require the ACD to prepare financial statements for each accounting year which give a true and fair view of the financial position of the Company and of its net income and the net gains or losses on the property of the Company for the period. In preparing the financial statements, the ACD is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised funds issued by the Investment Management Association in October 2010;
- follow generally accepted accounting principles and applicable accounting standards;
- keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- take such steps as are reasonably open to it to prevent and detect fraud and other irregularities;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation.

## Authorised Status

Insight Investment Funds-of-Funds II ICVC ("the Company") is an investment company with variable capital ("ICVC") for the purposes of the Financial Services Authority's Collective Investment Scheme Sourcebook ('the Sourcebook'). The Company was incorporated in England and Wales on 27 February 2007 and is authorised and regulated by the Financial Services Authority.

## Statement of Depositary's Responsibilities

The Depositary is responsible for the safe keeping of all of the property of the company (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the Depositary to take reasonable care to ensure that the company is managed in accordance with the Financial Services Authority's Collective Investment Schemes Sourcebook ('the Sourcebook'), as amended, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended, ("the OEIC Regulations"), the company's Instrument of Incorporation and Prospectus, in relation to the pricing of, and dealings in, shares in the Company; the application of income of the Company; and the investment and borrowing powers applicable to the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the ACD:

- has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the Sourcebook and, where applicable, the OEIC Regulations, the Instrument of Incorporation and Prospectus of the Company, and
- has observed the investment and borrowing powers and restrictions applicable to the Company.

National Westminster Bank plc  
Depositary  
20 February 2012

## Certification of Accounts by the Authorised Corporate Director

We hereby certify the Annual Report and Financial Statements have been prepared in accordance with the requirements of the Financial Services Authority's Collective Investment Schemes Sourcebook ('the Sourcebook') and is approved for publication on behalf of Insight Investment Funds Management Limited, and the Authorised Corporate Director ("ACD").

Atul Manek  
Director  
20 February 2012

Charles Farquharson  
Director  
20 February 2012

## **Independent Auditor’s Report to the Shareholders of Insight Investment Funds-of-Funds II ICVC (‘the Company’)**

We have audited the financial statements of the Company for the year ended 31 December 2011 which comprise the Statement of Total Return, the Statement of Change in Net Assets Attributable to Shareholders, the Balance Sheet together with the related notes and the distribution table. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company’s shareholders, as a body, in accordance with Rule 4.5.12 of the Collective Investment Schemes sourcebook (‘the COLL Rules’) issued by the Financial Services Authority under the Open-Ended Investment Companies Regulations 2001. Our audit work has been undertaken so that we might state to the Company’s shareholders those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Authorised Corporate Director (‘the ACD’) Insight Investment Funds Management Limited and the Auditor**

As explained more fully in the Statement of ACD’s Responsibilities set out on page 1, the ACD is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB’s website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial position of the Company as at 31 December 2011 and of its net revenue and net capital losses on the property of the Company for the year then ended; and
- have been prepared in accordance with the requirements of the Instrument of Incorporation, Statement of Recommended Practice relating to Authorised Funds and the COLL Rules.

### **Opinion on other matters prescribed by the COLL Rules**

In our opinion the information given in the Authorised Corporate Directors’ Report is consistent with the financial statements.

We have received all of the information and explanations which we consider necessary for the purposes of the audit.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where under the COLL Rules we are required to report to you if, in our opinion:

- proper accounting records for the Company have not been kept; or
- the financial statements are not in agreement with the accounting records.

R Scott Hopkins (Senior Statutory Auditor)  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**  
Chartered Accountants  
15 Canada Square  
London E14 5GL  
20 February 2012

## Absolute Insight

### Investment objective and policy

The investment objective and policy of the Fund is to deliver positive absolute returns in all market conditions.

The Fund will seek to achieve its objective by investing primarily in shares of the range of sub-funds within Absolute Insight Funds plc, an Irish Umbrella UCITS investment company, the assets of which are also managed by the Investment Adviser. These sub-funds are absolute return funds which follow a number of different strategies.

The Authorised Corporate Director will typically conduct a monthly review and rebalance of the allocation of capital to each strategy.

The Fund may also invest, to the extent permitted by the Regulations, in ancillary liquid assets (including units in collective investment schemes), permitted money market instruments and, from time to time, cash or near cash may be held.

### Economic and market review

Risk assets were weak over the period as a combination of concerns about the European banking system's exposure to peripheral Europe as well as worries about a renewed economic slowdown in the US resulted in a widespread sell-off in risk assets in August and September in particular. In the second half of the period risk assets did stage a recovery as hopes grew of a resolution to the European crisis, but returns remained in negative territory for the period as a whole. In fixed income, the UK gilt market was the main beneficiary of the stresses in mainland Europe as safe haven buying, weaker economic data and the Bank of England's quantitative easing programme all provided downwards pressure on yields. Spreads to corporate bond markets rose, however, given the economic stresses in the eurozone.

### Performance and activity

The Fund produced positive returns but underperformed the benchmark (three-month sterling LIBID) return over the period.

The UK equity market neutral and absolute return equity strategies were the largest positive contributors to returns over the year given strong stock selection. In addition, these two strategies delivered these positive returns with low volatility, helping to provide stability in an overall Fund context. Gross investment levels in both strategies are currently lower than normal given continued high correlations between stocks.

The currency strategy also delivered positive returns for the year, continuing to offer performance which was negatively correlated to risk assets and therefore providing diversification in an overall Fund context. The main theme in the strategy continued to be an underweight in the euro, primarily versus the US dollar. The position was positive for performance and was based on the view that a slowdown in European growth would result in a weaker currency.

The emerging market debt strategy produced flat returns for the year. The long-running problems in the eurozone caused sell-offs across a variety of risk assets in the third quarter of the year. For much of that period, emerging market debt held up much better than expected thanks to the strong fundamentals of the asset class. Ultimately, however, capital flows out of the asset class overwhelmed positive fundamentals and returns from the asset class were negative. However, portfolio hedges helped to protect the strategy's performance.

The biggest detractor from performance was the credit strategy which delivered negative returns for the year. Spreads were wider across all the main investment grade sectors as well as high yield markets. The financials sector was the worst performing due to concerns over its capacity to absorb losses from any eurozone default or write-down. However, the annual fall in the strategy was mitigated by portfolio hedges (short positions) in a number of European sovereign debt markets which were also weak.

### Outlook

We continue to believe that uncertainty over conditions in the eurozone and its broader implications is likely to cause ongoing volatility in financial markets. As such, we believe that a focus on alpha – or added value through investment selection – rather than trying to benefit from broad market moves, is the best approach to generating returns in the near term. In addition, we believe that diversification within and between the underlying strategies should continue to help smooth the overall return profile of the Fund.

## Absolute Insight

### Net Asset Value per Share and Comparative Table

#### Price history

Calendar Year	Accumulation Shares	
	Highest price (p)	Lowest price (p)
<b>2007<sup>(1)</sup></b>		
Fp (accumulation)	103.50	100.00
<b>2008</b>		
A (accumulation) <sup>(2)</sup>	100.60	97.38
Fp (accumulation)	104.50	101.30
<b>2009</b>		
A (accumulation)	112.60	102.00
Fp (accumulation)	108.50	97.95
<b>2010</b>		
A (accumulation)	118.50	108.60
Ap (accumulation) <sup>(3)</sup>	104.60	100.00
Fp (accumulation)	122.70	112.70
<b>2011</b>		
A (accumulation)	122.80	117.70
Ap (accumulation)	108.20	103.90
Fp (accumulation)	127.00	122.30

(1) from 28 February

(2) from 11 July

(3) from 2 July

#### Revenue history

Calendar Year	Net accumulation per share (p)
<b>2008</b>	
Fp (accumulation)	3.2014
<b>2009</b>	
A (accumulation)	1.2985
Fp (accumulation)	1.4799
<b>2010</b>	
A (accumulation)	1.1876
Ap (accumulation) <sup>(1)</sup>	-
Fp (accumulation)	0.9523
<b>2011</b>	
A (accumulation)	0.4696
Ap (accumulation)	-
Fp (accumulation)	0.3237
<b>2012<sup>(2)</sup></b>	
A (accumulation)	0.4531
Ap (accumulation)	0.5278
Fp (accumulation)	1.0852

(1) from 2 July

(2) to 28 February

## Absolute Insight

### Net Asset Value per Share and Comparative Table (continued)

#### Net asset value

		Value of fund (£)	No. of shares	Value per share (p)
31 December 2009	A (accumulation)	2,366,061	2,175,556	108.76
	Fp (accumulation)	269,955,513	239,709,016	112.62
31 December 2010	A (accumulation)	21,472,380	18,131,302	118.43
	Ap (accumulation) <sup>(1)</sup>	25,966,104	24,893,420	104.31
	Fp (accumulation)	216,192,953	176,682,620	122.36
31 December 2011	A (accumulation)	10,617,186	8,987,590	118.13
	Ap (accumulation)	109,723,263	105,208,092	104.29
	Fp (accumulation)	221,611,924	180,221,620	122.97

(1) from 2 July

#### Total expense ratio

	31.12.2011 %	31.12.2010 %
A (accumulation)	2.01	1.85
Ap (accumulation)*	1.82	2.23
Fp (accumulation)**	1.26	2.17

\*Includes Performance Fee of 0.06% (31 December 2010 - 0.43%)

\*\*Includes Performance Fee of 0.00% (31 December 2010 - 0.88%)

Where a share class is launched during the accounting period the total expense ratio is annualised based on the fees suffered during the period.

#### Performance record

In the period from 28 February 2007 to 31 December 2011, the price of Fp (accumulation) shares in the Fund rose by 23.00%. This compares with a rise of 14.49% in the 3 month Sterling LIBID benchmark over the same period.

Past performance is not a guide to future returns. The value of investments and any income will fluctuate (this may be partly due to exchange rate fluctuations) and investors may not get back the full amount invested.

Basis: Fund return (net of fees), mid day to mid day with revenue reinvested in sterling.  
Index return, close of business with revenue reinvested in sterling.

## Absolute Insight

### Portfolio statement

as at 31 December 2011

Holding/ Nominal Value	Investment	Market Value £'000	Percentage of Total Net Assets
	<b>Absolute Return Funds 99.14% (31 December 2010 100.53%)</b>		
41,699,117	Absolute Insight Credit Fund S Sterling Class*	73,574	21.51
61,930,848	Absolute Insight Currency Fund S Sterling Class*	82,758	24.20
54,338,193	Absolute Insight Emerging Market Debt Fund S Sterling Class*	70,569	20.64
65,974,817	Absolute Insight UK Equity Market Neutral Fund S Sterling Class*	83,082	24.30
28,298,234	BNY Mellon Absolute Return Equity Fund X Sterling Class	29,029	8.49
		<b>339,012</b>	<b>99.14</b>
	<b>Money Market Funds 0.88% (31 December 2010 0.38%)</b>		
3,000,000	Insight Sterling Liquidity Fund*	3,000	0.88
	<b>Portfolio of investments</b>	<b>342,012</b>	<b>100.02</b>
	<b>Net current liabilities</b>	<b>(60)</b>	<b>(0.02)</b>
	<b>Total net assets</b>	<b>341,952</b>	<b>100.00</b>

All securities are authorised Collective Investment Schemes unless otherwise stated.

\*Considered a related party of the ACD.

## Absolute Insight

### Statement of Total Return

for the year from 1 January 2011 to 31 December 2011

	Notes	1.1.2011 to 31.12.2011 £'000	1.1.2011 to 31.12.2011 £'000	1.1.2010 to 31.12.2010 £'000	1.1.2010 to 31.12.2010 £'000
Income					
Net capital (losses)/gains	2		(3,903)		20,828
Revenue	3	8,023		5,832	
Expenses	4	(3,955)		(4,988)	
Finance costs: Interest	6	(1)		-	
Net revenue before taxation		4,067		844	
Taxation	5	(813)		(169)	
Net revenue after taxation			3,254		675
<b>Total return before distributions</b>			<b>(649)</b>		<b>21,503</b>
Finance costs: Distributions	6		(3,254)		(675)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(3,903)</b>		<b>20,828</b>

### Statement of Change in Net Assets Attributable to Shareholders

for the year from 1 January 2011 to 31 December 2011

	1.1.2011 to 31.12.2011 £'000	1.1.2011 to 31.12.2011 £'000	1.1.2010 to 31.12.2010 £'000	1.1.2010 to 31.12.2010 £'000
<b>Opening net assets attributable to shareholders</b>		<b>263,631</b>		<b>272,322</b>
Amounts receivable on issue of shares	115,181		57,896	
Amounts payable on cancellation of shares	(35,940)		(87,942)	
		79,241		(30,046)
Stamp duty reserve tax		(106)		(80)
Change in net assets attributable to shareholders from investment activities		(3,903)		20,828
Retained distribution on accumulation shares		3,089		607
<b>Closing net assets attributable to shareholders</b>		<b>341,952</b>		<b>263,631</b>

The notes on pages 10 to 17 form an integral part of these financial statements.

## Absolute Insight

### Balance Sheet

as at 31 December 2011

	Notes	31.12.2011 £'000	31.12.2010 £'000
<b>Assets</b>			
Investment assets		342,012	266,032
Debtors	7	793	527
Cash and bank balances		1,117	2,228
<b>Total other assets</b>		<b>1,910</b>	<b>2,755</b>
<b>Total assets</b>		<b>343,922</b>	<b>268,787</b>
<b>Liabilities</b>			
Creditors	8	1,970	5,156
<b>Total other liabilities</b>		<b>1,970</b>	<b>5,156</b>
<b>Total liabilities</b>		<b>1,970</b>	<b>5,156</b>
<b>Net assets attributable to shareholders</b>		<b>341,952</b>	<b>263,631</b>

The notes on pages 10 to 17 form an integral part of these financial statements.

# Absolute Insight

## Notes to the Financial Statements

for the year from 1 January 2011 to 31 December 2011

### 1 Accounting policies

#### a Basis of accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice ("SORP") for Authorised Funds issued by the IMA in October 2010.

#### b Valuation of investments

The valuation of the Funds' listed investments is based on the bid-market prices at the closing valuation point on the last day of the accounting year in accordance with the provisions of the Prospectus. Unquoted securities are valued by the Authorised Corporate Director ("ACD") on a net realisable value basis taking into account, where appropriate, latest dealing prices, valuations from reliable sources, financial performance and other relevant factors. Non-eligible securities are investments held or traded on a non-eligible stock market. Information about eligible stock markets is available in the Prospectus.

Investments in another collective investment scheme (CIS), managed by the ACD or associate of the ACD are valued at the cancellation price for dual priced Funds and at the single price for single priced Funds. For CIS managed by other management groups, investments are valued at the bid price for dual priced Funds and at the single price for single priced Funds. Valuations should take into account any agreed rate of redemption charge.

#### c Revenue

Dividends on quoted ordinary shares and preference shares are recognised when the securities are first quoted ex-dividend. Revenue from unquoted equity investments is recognised when the entitlement to the dividend is established. Interest on bank deposits is recognised on an effective interest rate basis. In compliance with FRS 16 Current Tax, dividend revenue is shown net of any tax credits. Any entitlement to a repayment of tax credits is shown as a deduction from the tax charge rather than as dividend revenue.

Dividends and withholding tax recoverable from overseas authorities are treated as receivable on the date on which the security is quoted ex-dividend where the amounts can be reasonably determined. Foreign dividends are grossed up at the appropriate rate of tax.

Distributions on accumulation shares from CIS are treated as revenue and an appropriate transfer from capital to revenue is made including any withholding taxes but excluding tax credits.

Equalisation received by the Funds on distributions made by their investments is offset against the cost of the relevant investment.

#### d Expenses

Expenses are recognised on an accruals basis and are charged against the income account except for Stamp duty reserve tax (SDRT) and costs associated with the purchase and sale of investments, which are allocated to the capital of the Fund.

For the purposes of determining the distribution, all expenses of the Fund or the ACD's periodic charge may be borne by the capital account of the Fund.

#### e Allocation of income and expenses to multiple share classes

The allocation of income and expenses to each share class is based on the proportion of the Fund's assets attributable to each share class on the day the income is earned or the expense is incurred. The ACD's periodic charge and general administration charge are allocated on a share class specific basis.

#### f Taxation

Corporation tax is charged at 20% of the income liable to corporation tax less expense. Deferred tax is provided for at the rate at which taxation is likely to become payable in respect of all timing differences between the accounting and taxation treatment of items.

## **Absolute Insight**

### **Notes to the Financial Statements (continued)**

for the year from 1 January 2011 to 31 December 2011

#### **1 Accounting policies (continued)**

##### **g Distributions**

The net revenue available for distribution at the end of each distribution period will be paid as a dividend distribution. Should the expenses of the Fund (including taxation) exceed the revenue of the Fund, there will be no distribution and the shortfall will be set against the capital of the Fund. Any revenue attributable to accumulation shareholders is retained within the Fund at the end of the distribution period and represents a reinvestment of income on behalf of the accumulation shareholders.

##### **h Exchange rates**

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling on the date of the transaction. Investments and other assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates applicable at the end of the accounting year.

##### **i Tax relief for utilising expenses on offshore income gains**

Where expenses are utilised for tax purposes against offshore income gains, tax relief has been credited to the Fund.

## Absolute Insight

### Notes to the Financial Statements (continued)

for the year from 1 January 2011 to 31 December 2011

#### 2 Net capital (losses)/gains

	1.1.2011 to 31.12.2011 £'000	1.1.2010 to 31.12.2010 £'000
Non-derivative securities	(3,894)	20,835
Transaction charges	(9)	(7)
<b>Net capital (losses)/gains</b>	<b>(3,903)</b>	<b>20,828</b>

#### 3 Revenue

	1.1.2011 to 31.12.2011 £'000	1.1.2010 to 31.12.2010 £'000
Overseas taxable dividends	8,023	5,831
Bank interest	-	1
<b>Total revenue</b>	<b>8,023</b>	<b>5,832</b>

#### 4 Expenses

	1.1.2011 to 31.12.2011 £'000	1.1.2010 to 31.12.2010 £'000
<b>Payable to the Authorised Corporate Director, associates of the Authorised Corporate Director and agents of either of them:</b>		
Authorised Corporate Director's periodic charge	3,686	2,719
General administration charges	169	83
Performance fee	51	2,140
	<u>3,906</u>	<u>4,942</u>
<b>Payable to the Depositary, associates of the Custodian and agents of either of them:</b>		
Depositary's fee	17	16
Safe custody fees	24	22
	<u>41</u>	<u>38</u>
<b>Other expenses</b>		
Audit fees*	8	8
	<u>8</u>	<u>8</u>
<b>Total expenses</b>	<b>3,955</b>	<b>4,988</b>

\*Audit fee for the year, excluding VAT, was £6,700 (2010: £6,600).

## Absolute Insight

### Notes to the Financial Statements (continued)

for the year from 1 January 2011 to 31 December 2011

#### 5 Taxation

##### a Analysis of charge in year

	1.1.2011 to 31.12.2011 £'000	1.1.2010 to 31.12.2010 £'000
Corporation tax	813	169
<b>Total current tax charge for the year (see note 5(b))</b>	<b>813</b>	<b>169</b>
Deferred tax charge for the year (see note 5(c))	-	-
<b>Total tax charge for the year</b>	<b>813</b>	<b>169</b>

Corporation tax has been provided at a rate of 20% (31 December 2010: 20%).

##### b Factors affecting current tax charge for the year

	1.1.2011 to 31.12.2011 £'000	1.1.2010 to 31.12.2010 £'000
Net revenue before taxation	4,067	844
Corporation tax at 20%	813	169
<b>Current tax charge for the year (see note 5(a))</b>	<b>813</b>	<b>169</b>

##### c Deferred tax

	1.1.2011 to 31.12.2011 £'000	1.1.2010 to 31.12.2010 £'000
Deferred tax provision at the start of the year	-	-
Deferred tax charge for the year (see note 5(a))	-	-
<b>Deferred tax provision at the end of the year</b>	<b>-</b>	<b>-</b>

# Absolute Insight

## Notes to the Financial Statements (continued)

for the year from 1 January 2011 to 31 December 2011

### 6 Finance costs

#### Distributions and interest

The distributions take account of revenue received on the issue of shares and revenue deducted on the cancellation of shares, and comprise:

	1.1.2011 to 31.12.2011 £'000	1.1.2010 to 31.12.2010 £'000
Interim distribution	537	528
Final distribution	2,552	79
<b>Distributions for the year</b>	<b>3,089</b>	<b>607</b>
Amounts deducted on cancellation of shares	21	84
Amounts added on issue of shares	144	(16)
<b>Net distribution for the year</b>	<b>3,254</b>	<b>675</b>
Finance costs: Interest	1	-
<b>Total finance costs</b>	<b>3,255</b>	<b>675</b>
<b>Net revenue after taxation for the year</b>	<b>3,254</b>	<b>675</b>
<b>Distributions for the year</b>	<b>3,254</b>	<b>675</b>

Details of the distribution per share are set out in the tables on page 18.

### 7 Debtors

	31.12.2011 £'000	31.12.2010 £'000
Amounts receivable for creation of shares	791	526
Accrued revenue	2	1
<b>Total debtors</b>	<b>793</b>	<b>527</b>

### 8 Creditors

	31.12.2011 £'000	31.12.2010 £'000
Amounts payable for cancellation of shares	776	159
Purchases awaiting settlement	-	2,470
Accrued expenses	381	2,408
Corporation tax payable	813	119
<b>Total creditors</b>	<b>1,970</b>	<b>5,156</b>

## Absolute Insight

### Notes to the Financial Statements (continued)

for the year from 1 January 2011 to 31 December 2011

#### 9 Contingent liabilities

There were no contingent liabilities at the Balance Sheet date (31 December 2010: £Nil).

#### 10 Related party transactions

The ACD is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of the operation of the Fund.

The ACD acts as principal in respect of all transactions of the shares in the Funds. The aggregate monies received through issues and paid on cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Any amounts due to or from the ACD at the year end are disclosed within debtors and creditors.

Amounts payable to the ACD in respect of periodic charge is disclosed within expenses and amounts due at the year end is disclosed within creditors.

Related party holdings are included within the portfolio statement.

#### 11 Derivatives and other financial instruments

In pursuing its investment objective and investment policy, the Fund holds a number of financial instruments.

These may comprise:

- Shares or units in United Kingdom or offshore Collective Investment Scheme. These are held in accordance with each of the Funds' investment policies;
- Cash, liquid resources and short term debtors and creditors that arise directly from its operation; and
- Short term borrowings used to finance operational cash flows;

The main risks arising from the financial instruments are market price (including "emerging markets price risk"), foreign currency, interest rate, liquidity and counterparty credit risk. The ACD reviews the policies for managing each of these risks and they are summarised below.

These policies have remained unchanged since the beginning of the year to which these financial statements relate.

##### Market price risk

Market price risk results mainly from the uncertainty about the future prices of financial instruments held. It represents the potential loss a Fund may suffer through holding market positions in the face of market movements and changes in exchange rates. Market risk is the risk that changes in interest rates, foreign exchange rates or equity and commodity prices will make an instrument less valuable or more onerous.

## Absolute Insight

### Notes to the Financial Statements (continued)

for the year from 1 January 2011 to 31 December 2011

#### 11 Derivatives and other financial instruments (continued)

##### Currency risk

Currency risk is the risk that the revenue and net asset value of the Fund may be adversely affected by movements in foreign exchange rates. The revenue and capital value of the Funds investments can be significantly affected by currency risk movements if some of the assets and income were denominated in currencies other than sterling, which is the Company's functional currency.

The currency risk profile of the Fund as at 31 December 2011 and 31 December 2010 was as follows:

Currency	Monetary	Non-monetary	Total	Monetary	Non-monetary	Total
	exposures	exposures		exposures	exposures	
	31.12.2011	31.12.2011	31.12.2011	31.12.2010	31.12.2010	31.12.2010
	£'000	£'000	£'000	£'000	£'000	£'000
Sterling	1,117	340,835	341,952	2,228	261,403	263,631
<b>Total</b>	<b>1,117</b>	<b>340,835</b>	<b>341,952</b>	<b>2,228</b>	<b>261,403</b>	<b>263,631</b>

##### Interest rate risk

Interest rate risk is the risk that the revenue cashflow or the fair value of investments may be adversely affected by movements in market interest rates. The Fund invests in debt securities and any change in interest rates may result in the ACD being unable to secure similar returns in the future.

The Fund invests in Fund's, which, in themselves, invest in fixed rate securities and any change in interest rates may result in the ACD being unable to secure similar returns in the future. The interest rate profile for the Fund is shown in the notes to their accounts.

The interest rate risk profile of the Fund's financial assets and liabilities at 31 December 2011 and 31 December 2010 was as follows:

Currency	Floating rate	Fixed rate	Financial assets not	Total
	financial assets	financial assets	carrying interest	
	£'000	£'000	£'000	£'000
<b>Sterling</b>				
31.12.2011	1,117	-	342,805	343,922
31.12.2010	2,228	-	266,559	268,787
Currency	Floating rate	Financial liabilities	Financial liabilities	Total
	financial liabilities	not carrying interest	not carrying interest	market value
	£'000	£'000	£'000	£'000
<b>Sterling</b>				
31.12.2011	-	-	1,970	1,970
31.12.2010	-	-	5,156	5,156

## Absolute Insight

### Notes to the Financial Statements (continued)

for the year from 1 January 2011 to 31 December 2011

#### 11 Derivatives and other financial instruments (continued)

##### Liquidity risk

Liquidity risk is the risk that the Company/Fund will not be able to meet its obligations as they fall due. The Funds assets comprise mainly of readily realisable securities which can be sold to meet liquidity requirements. The main liquidity risk of the Fund is the redemption of any shares that investors wish to sell, which are redeemable on demand under the Prospectus.

##### Counterparty credit risk

Counterparty credit risk is the risk of suffering loss due to another party not meeting its financial obligation.

Investments may be adversely affected by counterparty credit risk if any of the institutions with which money is deposited suffers insolvency or other financial difficulties. All security transactions are through brokers who have been approved by the ACD as an acceptable counterparty.

The Funds maximum exposure to credit risk is reflected by the carrying value of the related assets in the balance sheet and portfolio statement.

##### Fair value of financial assets and liabilities.

There are no material differences between the value of the financial assets and liabilities, as shown in the Balance Sheet and their fair value.

#### 12 Share classes

The Fund has the following share classes in issue, with the following charges and minimum initial investment levels:

Share class	Initial Charge	ACD's Periodic Charge	Minimum initial Investment
A (accumulation)	4.00%	1.50%	£5,000
Ap (accumulation)	4.00%	1.50%	£5,000
Fp (accumulation)	4.00%	1.00%	£5,000

Because of these varying expenses, the level of net income attributable to each share class may differ.

The Net Asset Value of each share class, the Net Asset Value per share, and the number of shares in each class are given in the comparative table on pages 5 to 6. All share classes have the same rights on winding up.

#### 13 Portfolio transaction costs

As this Fund invests mainly in Absolute Return securities, there were no transaction charges or commissions on any trades during the year.

## Absolute Insight

### Distribution Tables

Distributions are disclosed in pence per share, unless otherwise stated.

### Interim distribution

For the period 1 January 2011 to 30 June 2011

Group 1 - Shares purchased prior to 1 January 2011

Group 2 - Shares purchased 1 January 2011 to 30 June 2011

	Net distribution	Equalisation	Distribution paid 31.08.11	Distribution paid 31.08.10
<b>Accumulation Shares</b>				
A - Group 1	0.1547	-	0.1547	0.3011
A - Group 2	0.1547	-	0.1547	0.3011
Ap - Group 1	-	-	-	-
Ap - Group 2	-	-	-	-
Fp - Group 1	0.2865	-	0.2865	0.2718
Fp - Group 2	0.2865	-	0.2865	0.2718

### Corporate Shareholders

Corporate shareholders receive the dividend distribution payment as detailed below:

0.00% of the total distribution together with the tax credit is received as franked investment revenue.

100.00% of the distribution is deemed to be an annual payment received after deduction of income tax at the lower rate and is liable to corporation tax. It is not franked investment revenue.

### Final distribution

For the period 1 July 2011 to 31 December 2011

Group 1 - Shares purchased prior to 1 July 2011

Group 2 - Shares purchased 1 July 2011 to 31 December 2011

	Net distribution	Equalisation	Distribution payable 28.2.2012	Distribution paid 28.2.2011
<b>Accumulation Shares</b>				
A - Group 1	0.4531	-	0.4531	0.3149
A - Group 2	0.4531	-	0.4531	0.3149
Ap - Group 1	0.5278	-	0.5278	-
Ap - Group 2	0.5278	-	0.5278	-
Fp - Group 1	1.0852	-	1.0852	0.0372
Fp - Group 2	0.8555	0.2297	1.0852	0.0372

Equalisation applies to shares purchased during each distribution period which are, for that distribution period, classified as Group 2 shares. The average amount of income included in the purchase price of Group 2 shares is refunded to holders of these shares as return of capital. Being a capital repayment, it is not liable to income tax but must be deducted from the cost of shares for Capital Gains Tax purposes.

### Corporate Shareholders

Corporate shareholders receive the dividend distribution payment as detailed below:

0.00% of the total distribution together with the tax credit is received as franked investment revenue.

100.00% of the distribution is deemed to be an annual payment received after deduction of income tax at the lower rate and is liable to corporation tax. It is not franked investment revenue.

## Further information

Insight Investment Funds-of-Funds II ICVC is an open-ended investment company with variable capital and shareholders are not liable for the debts of the Company.

As a Fund is not a legal entity, if the assets attributable to any Fund were insufficient to meet the liabilities attributable to it, the shortfall might have to be met out of the assets attributable to one or more other Funds of the ICVC, should these exist.

The initial Fund has the investment powers equivalent to that of a Non-UCITS Retail Scheme.

The maximum percentage rate of periodic charge to the Funds is 2%. The initial Fund may not invest in a collective investment scheme which has a maximum annual management fee of 7% or more.

The Company is structured as an umbrella scheme currently comprising one Fund. In the future, there may be other Funds launched.

The Prospectus of the Company and the Instrument of Incorporation may be inspected free of charge between 8.30am and 5.30pm on every business day at the customer service office of the Authorised Corporate Director (“ACD”) at PO Box 23630, 12 Blenheim Place, Edinburgh, EH7 5ZR.

Shareholders may obtain copies of the above documents free of charge from the same address.

## Important information

Past performance is not a guide to future returns. The value of investments and any income will fluctuate (this may be partly due to exchange rate fluctuations) and investors may not get back the full amount invested.

Further details of the sub-funds and their risk factors can be found in the Prospectus and Simplified Prospectus which is available from the ACD – see Further Information above for contact details.

If you have any doubt about the suitability of an investment, you should consult an independent financial adviser.

## Further information (continued)

### The Company

Insight Investment Funds-of-Funds II ICVC  
Registered Number IC000509  
Registered Office:  
160 Queen Victoria Street  
London EC4V 4LA

### Director

The Authorised Corporate Director (“ACD”) is Insight Investment Funds Management Limited, which is the sole director.

Insight Investment Funds Management Limited  
Head Office and Registered Office:  
160 Queen Victoria Street  
London EC4V 4LA

Customer Service Office:  
PO Box 23630  
12 Blenheim Place  
Edinburgh, EH7 5GR

(Authorised and regulated by the Financial Services Authority)

### Investment Adviser

Insight Investment Management (Global) Limited  
160 Queen Victoria Street  
London EC4V 4LA

(Authorised and regulated by the Financial Services Authority)

### Depository

The Royal Bank of Scotland plc  
Trustee and Depository Services

Head Office:  
RBS Gogarburn  
PO Box 1000  
Edinburgh EH12 1HQ

With effect from 14 October 2011:  
National Westminster Bank plc  
Trustee and Depository Services

Head Office:  
135 Bishopsgate  
London EC2M 3UR

(Authorised and regulated by the Financial Services Authority)

### Registrars

Insight Investment Funds Management Limited  
PO Box 23630  
12 Blenheim Place  
Edinburgh EH7 5GR

### Auditor

KPMG Audit Plc  
Chartered Accountants  
8 Salisbury Square  
London EC4Y 8BB

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Registered No. 0183569. A member of IMA (Investment Managers' Association).  
Authorised and regulated by the Financial Services Authority.



