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Annual Short Report  
**Insight Investment  
Funds-of-Funds II ICVC**

# Insight Investment Funds-of-Funds II ICVC

## Absolute Insight



SHORT REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

### 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.

### RISK PROFILE

The nature of the company's investment in the Underlying Funds involves certain risks and the Underlying Funds will utilise investment techniques (such as the use of derivatives) which may carry additional risks. There can be no assurance that the investment objective of the Fund or the investment objectives of any Underlying Fund will be achieved and investment results may vary substantially over time.

The Fund will invest predominantly in the Underlying Funds and as such will be a 'fund of funds'. Accordingly many if not all of the risks attributable to an investment in the Underlying Funds will be relevant to an investment in the Fund.

### FUND MANAGERS' COMMENTS

#### 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.

#### Fund 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.

### TOP HOLDINGS AS AT 31/12/2011

1	Absolute Insight UK Equity Market Neutral Fund S Sterling Class	24.30%
2	Absolute Insight Currency Fund S Sterling Class	24.20%
3	Absolute Insight Credit Fund S Sterling Class	21.51%
4	Absolute Insight Emerging Market Debt Fund S Sterling Class	20.64%
5	BNY Mellon Absolute Return Equity Fund X Sterling Class	8.49%

### TOP HOLDINGS AS AT 31/12/2010

1	Absolute Insight UK Equity Market Neutral Fund S Sterling Class	31.82%
2	Absolute Insight Currency Fund S Sterling Class	23.84%
3	Absolute Insight Credit Fund S Sterling Class	23.13%
4	Absolute Insight Emerging Market Debt Fund S Sterling Class	21.74%
5	Insight Sterling Liquidity Fund	0.38%

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.

## TOTAL EXPENSE RATIO

As at	A (accumulation)%	Ap (accumulation)*%	Fp (accumulation)**%
31 December 2011	2.01	1.82	1.26
31 December 2010	1.85	2.23	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.

## SUMMARY OF FUND PERFORMANCE

Net Asset Value (pence per share) as at	A (accumulation)	Ap (accumulation)	Fp (accumulation)
31 December 2011	118.13	104.29	122.97
31 December 2010	118.43	104.31	122.36
Change (%)	(0.25)%	(0.02)%	0.50%

## REVENUE HISTORY

The Fund has an annual accounting period ending 31 December (payment date 28 February) and an interim income allocation period ending 30 June (payment date 31 August).

Calendar year	A (accumulation) pence per share	Ap (accumulation) pence per share	Fp (accumulation) pence per share
2012 <sup>(1)</sup>	0.4531	0.5278	1.0852
2011	0.4696	-	0.3237

(1) to 28 February

## PERFORMANCE RECORD

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.

From To	31/12/2010 31/12/2011 1 year	31/12/2009 31/12/2010 1 year	31/12/2008 31/12/2009 1 year	31/12/2007 31/12/2008 1 year	Since inception* 31/12/2007
Absolute Insight Fp (accumulation)	0.24%	8.97%	10.51%	(0.17)%	2.06%
3-month Sterling LIBID	0.86%	0.69%	1.31%	5.82%	5.16%

Source: Lipper, a REUTERS company.

\*from 28 February 2007

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.

## 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.

## Need more information?

Copies of the Annual and Interim Report and Financial Statements of this fund are available on our website at [www.insightinvestment.com](http://www.insightinvestment.com) or in writing from Insight Investment Funds Management Ltd, PO Box 23630, Edinburgh, EH7 5GR.

For further details on any of our fund ranges, please contact us on **0845 777 2233** or visit our website at [www.insightinvestment.com](http://www.insightinvestment.com) or email [service@insightinvestment.com](mailto:service@insightinvestment.com)

Unless otherwise stated, the source of fund information is Insight Investment Management (Global) Limited.

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