

Are absolute returns for every fund manager?



At launch in April 2008, the IMA Absolute Return sector was made up of just 17 funds. Today there are more than 38 consisting of a very broad range of strategies. The market's recent volatility has emphasised the desire for downside protection over performance, resulting in growth in the sector coming from traditional fund managers seeing the demand for solutions that are absolute rather than relative and hedge fund managers launching mirror mandates within a regulated structure.

Absolute return funds may have topped the IMA's bestseller list in December 2009 and are tipped to be one of the winners for 2010, but performance has been varied across the sector and, whereas identifying the aim of each of these funds may be relatively straightforward, understanding how they intend to deliver is often complex.

■ Positive returns

Criterion for inclusion in the sector focuses on delivering positive returns in any market condition, typically over a 12-month basis. But is that enough when choosing a fund, or is evidence needed to show that providers have invested in the specialist infrastructure that is required to operate in these sophisticated funds consistently and within a regulated environment?

As one of the leading adopters of the flexibil-

Absolute Insight: demonstrating delivery

	Absolute Insight	Abs Insight UK Eq Mkt Neutral	Abs Insight Currency	Abs Insight Emg Mkt Debt	Abs Insight Credit
1-year return	10.4%	3.7%	3%	25.8%	35.3% ¹
Positive rolling months	10/10	10/10	10/10	7/10	n/a
1-year volatility	2.6	2.0	3.3	6.1	6.0
Launch date	28 Feb '07	28 Feb '07	28 Feb '07	28 Feb '07	2 June '09
Size	£280m ²	£446m	£235m	£165m	£214m
Domicile	UK	Ireland	Ireland	Ireland	Ireland
Structure	NURS	Ucits III	Ucits III	Ucits III	Ucits III
Ratings		AA S&P, A OBSR		A OBSR	

Currency: £ (unless otherwise stated). All returns shown are based on net returns. The net returns are based on an annual management fee of 1% and a performance fee of 10% the calculation of the latter as defined in the fund prospectus. 1. Performance since inception, 2 June '09. Volatility is calculated using bi-monthly data points based on net returns. Correlations are calculated using bi-monthly net returns since inception. Rolling 1-year positive months are based starting from the launch of the IMA Absolute Return Sector 30 Apr '08. 2. The Absolute Insight Fund invests in the Absolute Insight UK Equity Market Neutral, Currency, Emerging Market Debt and Credit funds. Source: Insight Investment & Rimes

ity afforded by Ucits III, Insight Investment consulted with the regulator prior to the development of the investment, operational and regulatory infrastructures for its Absolute Insight range.

"We firmly believe in Ucits III, not just as a stamp of approval, but because we believe it is a prudent way of managing risk within a fund," says Alex Veroude, fund manager of the Absolute Insight Credit Fund.

■ Secret to success

Active demonstration of performance in a regulated absolute return structure is key for portfolio managers. After all, only the most liquid of hedge fund trading strategies can be used in a regulated framework and not all traditional houses have a sufficiently integrated risk framework and derivatives capability to support these often complex investment propositions.

"Insight has been man-

aging absolute return strategies since 1998 and the fund managers of our Absolute Insight range have full access to all of Insight's investment resources and our multi-layered risk framework," says Reza Vishkai, head of specialist investments.

"We are not treating these as a separate entity to the investment activities we undertake. This is very much core to what we do and this represents the best of what Insight has to offer from an investment standpoint."

■ Focused roles

Beyond preservation of capital, each of the funds in the Absolute Insight range has a specific focus, be that to deliver consistent, steady returns with extremely limited market exposure through a market neutral equity strategy; providing diversification in periods when most other asset classes correlate by employing a macro discre-

tionary approach to currency; capturing the upside of emerging market debt or credit markets while providing downside preservation in what can be two very volatile asset classes; or providing investors with a multi-strategy solution that gives access to the range of Insight's specialist absolute strategies mentioned above, with a single layer of charging.

The absolute return sector is growing rapidly and many have asked if this is because of investor demand or the spin of a marketing machine. Many funds in the sector are delivering to investor needs and, although past performance may not be an indication of what will be delivered in the future, a full understanding of the techniques and objectives an individual fund is aiming to deliver and a provider with a demonstrable track record and robust risk framework is surely a good starting point for fund selection.



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Reza Vishkai, head of specialist investment, Insight Investment