

FOR INVESTMENT PROFESSIONALS ONLY,  
NOT FOR ONWARD DISTRIBUTION



What if you don't  
want a *rollercoaster ride*  
for your investment?

Absolute Insight  
UK Equity Market  
Neutral Fund

➤ A BNY MELLON COMPANY<sup>SM</sup>



# Why market neutral funds?

Recent history has served to underline how volatile equity markets can be; moving from extreme lows to new highs and back again, often without warning and sometimes at great speed. While some investors are happy to take the ups and downs – to capture the highs and risk the lows – others may prefer a smoother ride which is not reliant on equity market direction.

For investors who simply do not want to take the kind of risk that comes with large potential drawdowns from traditional equity investments, an equity market neutral investment approach, that is to say an approach where returns are not correlated with equity market direction, may help them achieve their investment returns without the bumpy ride.

By eliminating unwanted market risks, genuine equity market neutral funds aim to generate consistent positive returns regardless of equity market ups and downs. This can be done efficiently and relatively easily by using derivatives to remove unwanted exposures and enable the fund manager to concentrate exclusively on the generation of returns through their investment selection.

There are several different ways to manage equity market exposure in a portfolio. However, we believe a “paired” trading strategy in which every position is combined with an appropriate hedge is the best way of producing genuinely “market neutral” returns.

# About the Fund

The UK Equity Market Neutral Fund (the Fund) aims to provide attractive, positive absolute returns in all market conditions. Our investment process has been designed to control volatility and downside risk.

## Key features

- **Market neutral** – strict limits on net exposure and beta ensure that the Fund maintains minimal exposure to the direction of the UK equity market.
- **Low volatility** – a particular feature of the strategy has been to deliver low volatility and high risk-adjusted returns.
- **Paired trade approach** – the managers build the Fund from a series of paired trades. Each pair is designed to isolate the specific risks that the Fund Managers seek to profit from, while hedging out unwanted sector or broader market risks.
- **Experienced investment team** – the portfolio managers have been responsible for the strategy since inception. Together with specialist analysts they form a cohesive and dynamic unit which is fully integrated within the investment infrastructure of Insight.
- **Disciplined risk management** – applied through a multi-dimensional and integrated framework.
- **UCITS III vehicle** – The Fund is a sub-fund of Absolute Insight Funds plc, an Ireland-domiciled open-ended investment company.



# The Fund in more detail

The Fund's investment approach aims to capitalise on market inefficiencies which lead to certain stocks being mispriced relative to other similar stocks or the broader market. We identify those opportunities through detailed fundamental research as well as careful consideration of likely catalysts to move the share prices.

The Fund aims to profit from such opportunities through paired trades. Stop-loss review triggers aim to provide a degree of downside protection and are consistent with the Fund's aim of delivering positive returns with low volatility.

Our paired trade approach allows our managers to express views only where they have a strong conviction. We focus detailed research only on ideas which appear to offer significant performance potential; we do not have a view on every stock.

## Portfolio construction

Each paired trade in the Fund generally consists of two units – a long and a synthetic short. The lead unit (which may be the long or short of the pair), is expected to drive performance, while the secondary unit provides the hedge. The objective of the secondary unit is to create a market-neutral position and isolate the potential alpha identified in the lead unit. The use of derivatives (used within a UCITS III regulated framework) enables the managers to achieve a much greater degree of precision than is available to a traditional 'long-only' manager. The managers typically design three types of paired-trades as shown below:

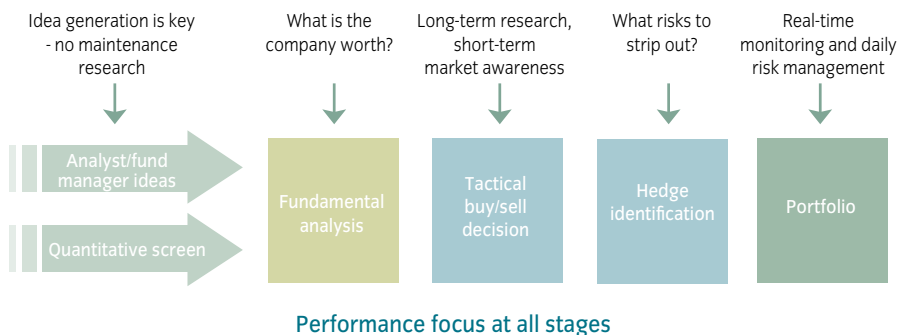
**The managers typically design three types of paired-trades as shown below:**

	Example trade
1. Stock vs stock	Next vs Marks & Spencer
2. Stock vs sector index	Next vs Retail Sector
3. Stock vs market	Next vs FTSE 100 or Next vs Mid 250

# Investment process

This Fund's approach is centred on the concept that markets are not always efficient. In order to capitalise on these inefficiencies the UK equity market neutral team have built a process that seeks to isolate stock specific opportunities while minimising unwanted market-related risks using a technique of paired trades with the aim of providing a consistent stream of positive returns.

The investment process combines idea generation, focused research and precise implementation to achieve the Fund's performance objective.

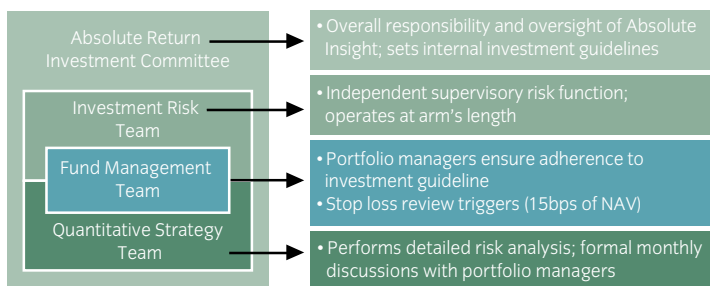


In seeking opportunities to generate alpha the fund managers, Andrew Cawker, Iain Brown and Richard Howarth, follow a research-led investment process based on detailed fundamental analysis and regular contact with company management. Once an investment opportunity has been identified, a range of flexible investment strategies allow the managers to target the alpha while hedging out unwanted risk.

# Monitoring risk

Insight has developed a robust and integrated risk management process for the Absolute Insight fund range. Overall responsibility and oversight lies with the Absolute Return Investment Committee (ARIC), chaired by Reza Vishkai, Head of Specialist Investments.

## Rigorous and holistic approach to risk management



- The **ARIC** is responsible for setting internal risk and investment guidelines. This committee meets monthly to review performance, risk levels and policy within the Fund.
- Insight's **Risk Management Team** has a supervisory function. The Team is responsible for ensuring compliance with the relevant risk limits and for initiating action in the case of a breach.
- The **Quantitative Strategy Team** analyses non trivial biases and sensitivities at the portfolio level, risk concentrations, and ad-hoc measures depending on the market environment using a wide range of quantitative approaches.
- The **Fund Management Team** is responsible for running the strategy within set limits. These limits include gross and net exposure, beta and value-at-risk (VaR).

## Downside protection

Stop-loss review triggers are applied to each open paired trade in the Fund.

A stop-loss message is triggered when a paired trade registers a loss of 15 basis points (bps) of the Fund's net asset value (NAV) and are monitored independently by both the portfolio manager and risk management team.

# About Insight Investment

Insight Investment is a specialist asset manager at the forefront of designing investment solutions to meet our clients' needs. Launched in 2002, Insight is a leading asset manager, with £99.9 billion in assets under management<sup>1</sup> across fixed income, liability driven investment, cash management, multi-asset, absolute return and specialist equity strategies. We manage money for private investors, pension funds, sovereign wealth funds, insurance groups, local government, charities and other financial institutions.

Andrew Cawker, Richard Howarth and Iain Brown are jointly responsible for the management of the Absolute Insight UK Equity Market Neutral Fund, supported by Insight's investment platform.



## **Richard Howarth**

Portfolio Manager,  
Absolute Insight

Richard joined Insight in January 2002 as a portfolio manager within the UK equity team. Prior to joining 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. Richard holds a BA honours degree in Economics from the University of Nottingham and is an Associate Member of the CFA Society of the UK.



## **Andrew Cawker**

Portfolio Manager,  
Absolute Insight

Andrew joined Insight in April 2003 as a portfolio manager within the UK equity team. Prior to joining Insight he was an Associate Partner at Invesco Global Asset Management (Amvescap plc) involved in developing specialist UK equity business alongside a range of UK and global equity portfolios. He was also responsible for pan-European analysis for the retail, food, beverages and tobacco sectors. Andrew began his career at Prudential Portfolio Managers in 1988, ultimately becoming a Director, with responsibility for UK equities. He holds a BA honours degree in Business Studies from the City of London Polytechnic.



## **Iain Brown**

Portfolio Manager,  
Absolute Insight

Iain joined Insight in July 2002 as a portfolio manager within the UK equity team. Prior to 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 Management/ Goldman Sachs as a portfolio manager. Iain began his career as an investment analyst with Credit Lyonnais in 1987 following a number of short-term roles, including two years with stockbroker, Charlton Seal. Iain holds a MA degree in Geography from Fitzwilliam College, Cambridge University.

<sup>1</sup> As at 31 March 2010.

# Fund specifics

Objective	To deliver attractive, positive absolute returns in all market conditions
Investment universe	UK equity and equity-related securities and their derivatives
Umbrella scheme	Absolute Insight Funds plc
Domicile/listing	Ireland/Irish Stock Exchange
IMA classification	Absolute Return
Benchmark	Sterling 3-month LIBID (defined as LIBOR minus 0.125% per annum)
Inception date	28 February 2007
Scheme type	Open Ended Investment Company, UCITS III
Share classes	Institutional and retail share classes are available in sterling and euro, with different minimum investment amounts and annual management charges (AMC)
Fee schedule	Annual management charges 1% per annum <sup>2</sup> 10% of any performance in excess of the benchmark return and net of AMC (subject to high water mark)
Base currency	Sterling
Pricing/dealing	Daily NAV calculation and dealing
Platforms	Ascentric (Fundsdirect), Cofunds, Hargreaves Lansdown (Vantage), Novia, Nucleus, Transact

<sup>2</sup>1% AMC is for the B1p share classes, other share classes are available upon request.

## Find out more

For further information including the Fund's Prospectus and Simplified Prospectus, please contact us:

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Call charges may vary by provider.

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