

Quarterly fund update

The Diversified High Income Fund

APRIL 2010

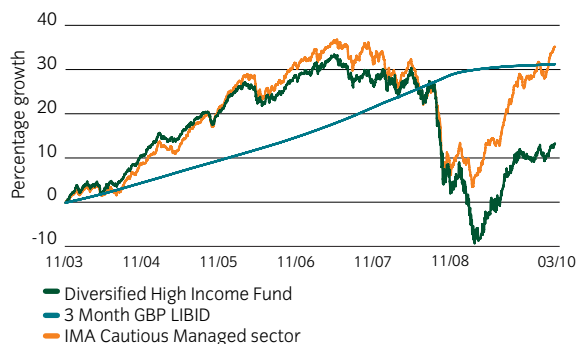
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Fund performance

The objective of the Diversified High Income Fund is to produce a high level of income together with potential capital growth. The Fund also aims to deliver positive total returns on an annual basis.

- In the three months to the end of March 2010, the Fund returned 3.2%.
- Over the period the strongly outperformed its cash benchmark.



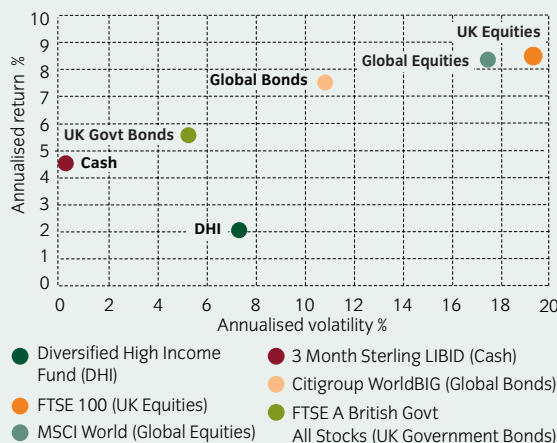
Source: Insight Investment. Basis: Total return mid to mid excluding the effect of initial charge. Inception date: 03/03/97. Data as at 31/03/10. Multi-Asset Group took over managing the Fund in November 2003. The Fund changed from Insight Wealth Builder High Income Fund to Insight Diversified High Income Fund on 26/10/07.

Attribution

- The Fund strongly outperformed its cash benchmark over the quarter and maintained a good level of income, with equities and credit both contributing significantly to returns.
- A key driver of returns was our holding in convertible bonds through the M&G Global Convertibles fund, which was up over 10% for the quarter, in line with rising equity markets. We feel convertible bonds fit well with our theme of having upside exposure with downside risk management, as they stand to benefit from equity gains but have the greater downside protection of bonds.
- Our exposure to Asian equities and property through the Aberdeen Asian Income and Celsius Asian Real Estate funds continued to add to returns, with both funds gaining over 10% during the quarter. The region continued to perform strongly, as investors bought into higher growth potential on offer in emerging markets, encouraged by strong GDP figures and lower than expected inflation data.

Risk/return versus major asset classes

This chart shows the annualised risk/return statistics for the Fund since launch, measured against leading asset classes.



Source: Insight Investment. Data as at 31/03/10. Risk stastics based on weekly data since 28/11/03.

Fund activity

- Early on in the quarter we trimmed our exposure to the Aberdeen Asian Income fund, as we felt that while the funds still offered good long-term potential, the risks of a short-term pull-back had increased. This proved to be a good move, with Asian markets falling back in January.
- We continued to add exposure to products which are not reliant on market direction. New positions included the Brevan Howard Macro Currency and Société Générale Ivory funds. The Ivory fund collates the highest conviction buy and sell ideas from the broker community and optimises them into a market-neutral equity strategy. The Brevan fund is a discretionary currency trading strategy with tight risk controls.

Current themes

Stability

Total return strategies (Non-directional investments)

As market and economic conditions remain strained, we maintain a particular focus on strategies that aim to offer high certainty of return. Attractive opportunities include: market neutral; equity long/short; and intra-market inefficiencies.

Growth

Controlled Equity (structured beta)

We use derivatives (a combination of put and call options) to take advantage of potential upside in equity markets, whilst limiting exposure to the downside. This is commensurate with our bias towards absolute return-style investing and controlling downside volatility.

Demographics

We are currently investing in a range of products to take advantage of long-term demographic change. These fall into the theme baskets of soft commodities (including agriculture), Asian growth, water, healthcare and environmental investments.

Investment outlook

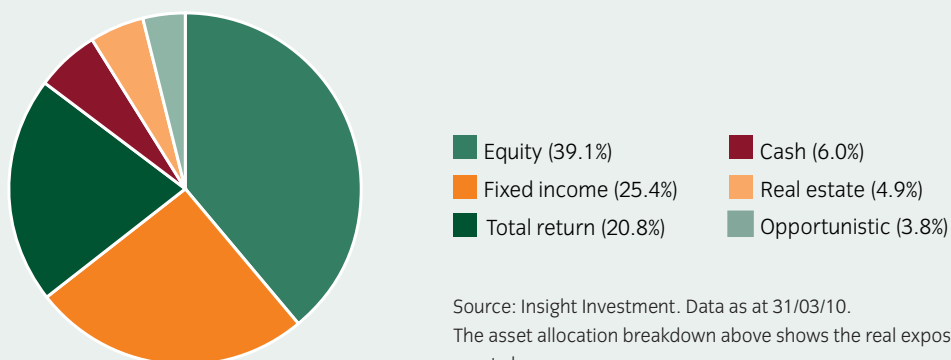
Recent economic data has continued to be relatively encouraging. It should be noted, however, that absolute levels of indicators such as unemployment and debt are still a serious concern and will, in our view, remain headwinds for any longer-term recovery.

Should we overcome this hurdle, then new highs for western markets are possible, but we feel that markets are more likely to stall as the structural effects of both consumer and corporate deleveraging are felt. Corporate earnings have generally been better than expected, but it is unclear whether this will continue to be the case once the strong base effects comparing results to weak 2008/early 2009 quarters is past. The forthcoming earnings season will be key in determining whether companies have been able to sustain their recent improvement in profitability by growing revenues as well as cutting costs.

The rebound in risk assets such as equities and corporate bonds over the last year has largely been due to markets realising that we were not facing a financial Armageddon. Going forward we expect the focus to shift to the speed and extent of a recovery.

Our own view is that any recovery will be gradual and that this will be reflected in more moderate market moves, as we see most risk assets as now being fully valued in a long-term context. Our portfolios are positioned accordingly, with higher weightings in funds and instruments that are not reliant on broad market gains or concrete signs of a return to sustainable growth, such as absolute return strategies. We also favour long-term structural growth themes, such as agriculture, environmental investment, water and healthcare, and Asia.

Fund asset allocation



Source: Insight Investment. Data as at 31/03/10.

The asset allocation breakdown above shows the real exposure to these asset classes.

Fund holdings overview

Holding	Weight
Cash	6.0%
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Equity	39.1%
DB X-trackers FTSE 100 Etf	4.2%
iShares FTSE 100	4.1%
Nikkei 225 (cme) 10/06/2010	4.0%
Schroder Income Maximiser Fund	3.7%
Blackrock UK Special Situations Fund	3.4%
iShares FTSE UK Dividend Plus	3.2%
JO Hambro Capital Management UK Growth Fund	3.1%
Aberdeen Asian Income Fund	3.1%
Baring Europe Select Trust	2.7%
HSBC Infrastructure Investment Trust	2.6%
Impax Environmental Markets Fund	2.5%
Celsius European Value Income Fund	2.3%
Barclays H20 30/05/2017	2.0%
Fidelity Global Health Care Fund	1.7%
Franklin Mutual European Fund	1.4%
Schroder UK Alpha Plus Fund	1.2%
Pacific Alliance Asian Opportunities Fund	0.9%
Polar Capital Healthcare Opportunities Fund	0.7%
F&C UK Opportunities Fund	0.6%
FTSE 100 Index 5600 Call Option 16/04/2010	-0.4%
S&P 500 Emini Future (cme) 18/06/2010	-0.7%
DJ Euro Stoxx 50 Future 18/06/2010	-4.0%
FTSE 100 Index Future 18/06/2011	-4.2%

Holding	Weight
Fixed income	25.4%
Schroder All Maturities Corporate Bond Fund	5.1%
M&G Global Convertibles Fund	4.2%
L&G Dynamic Bond Trust	4.1%
Templeton Global Bond Fund	4.0%
Bluebay Investment Grade Bond Fund	3.9%
Monument Rmbs Bond Fund	3.2%
Carillon Ltd Frn 10/01/2011	0.2%
Opportunistic	3.8%
DJ Euro Stoxx 50 Dividend Future 16/12/2011	2.4%
Merrill Lynch Commodity Alpha 25/05/2010	1.4%
Real estate	4.9%
Celsius Asian Real Estate Fund	3.3%
iShares FTSE EPRA UK Property Fund	1.4%
Total return	20.8%
Brevan Howard Macro Currency Fund	3.2%
Threadneedle Absolute Return Bond Fund	3.1%
MW Tops Fund	2.3%
JP Morgan Income Opportunity Fund	2.0%
Fidelity Fast Opt Euro Equity Mkt Neutral Fund	2.0%
Société Générale Ivory 16/03/2015	1.9%
Blackrock UK Absolute Alpha Fund	1.9%
Baring Absolute Return Global Bond Trust	1.7%
Polar Capital UK Absolute Return Fund	1.1%
F&C Active Return Fund	1.0%
Total	100.0%

Source: Insight Investment. Data as at 31/03/10.
 All individual holdings stated are on a nominal basis. All asset allocation
 breakdowns are the real exposures to these asset classes.
 Please note rounding is to one decimal place.

Key holdings

Schroder All Maturities Corporate Bond Fund (5.1%)

The fund's objective is to achieve a high level of income from a diversified portfolio of fixed interest securities. It will invest in fixed interest securities, principally corporate bonds and convertible bonds issued by UK companies, as well as British government securities. Efficient portfolio management techniques may be utilised when considered appropriate.

M&G Global Convertibles Fund (4.2%)

Run by Leonard Vinville, the fund invests in convertible bonds, which can offer the upside potential of equities with the downside risk protection of bonds, delivering attractive risk-adjusted returns. Forced sales by hedge funds during the financial crisis meant that prices were artificially depressed while M&G has a large, experienced and well-resourced credit analysis team to take advantage of these conditions.

iShares FTSE 100 (4.1%) and DB X-Trackers FTSE 100 ETF (4.2%)

Managed by Barclays Global Investors and Deutsche Bank respectively, these exchange-traded funds are a liquid, low-cost, efficient way to gain exposure to the overall returns of the UK stock market. In line with our view that there is limited upside from current levels, we have sold out-of-the-money FTSE call options against these holdings, thus boosting the yield by selling away some of the upside.

L&G Dynamic Bond Trust (4.1%)

This unconstrained fund is appropriate for volatile non-directional markets. It has a flexible mandate and makes active use of derivatives under the management of Dickie Hodges, a highly skilled and experienced fund manager.

Templeton Global Bond Fund (4.0%)

The fund aims to maximise total return, consisting of a combination of interest income, capital appreciation and currency gains by investing in fixed income securities worldwide. It seeks to maximise total investment return, while holding investments for the medium to long-term.

Bluebay Investment Grade Bond Fund (3.9%)

The fund aims to generate strong total returns for investors by investing in a diversified portfolio of primarily European investment grade corporate bonds. Bluebay are a specialist fixed income investment manager that blend traditional long-only skills with hedge fund trading expertise.

Schroder Income Maximiser Fund (3.7%)

The Schroder fund has a yield target of 7% per annum and sells covered call options on the stocks that it owns in order to supplement the dividends received from the underlying portfolio.

Blackrock UK Special Situations Fund (3.4%)

The aim of the fund is to achieve long-term capital growth for investors and invests primarily in UK shares and will normally have an emphasis on small or medium sized companies. The fund may also invest in collective investment schemes. Small and medium sized companies are those whose market capitalisation is lower than that of companies in the FTSE 100 Index at the time of the fund's investment.

Celsius Asian Real Estate Trust (3.3%)

The Celsius trust invests in a broad range of pan-Asian REITs. The fund manager uses derivatives for efficient portfolio management which reduces much of the trust's volatility while increasing the income yield of the trust. The manager expects a yield of circa 9% in its first year. This trust provides diversification for our Fund, thus reducing volatility while also providing a high level of income.

Reasons to recommend the Diversified High Income Fund

- The objective of the Fund is to produce a high level of income together with potential capital growth. The Fund also aims to deliver positive total returns on an annual basis.
- It is a diversified portfolio with flexibility to move between asset classes including fixed income, equity, cash, real estate, commodities, total return and opportunistic holdings.
- Investors receive monthly income payments with a bonus paid in December.
- Quantitative and qualitative risk controls form a pivotal role within the Fund and are monitored both at arms length and by the fund managers.

Join our fund manager conference call updates

To find out more about our diversified fund range join the fund managers for our intermediary audio conference updates. For more information and a summary of our most recent call please email conferencecalls@insightinvestment.com.

Find out more

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Telephone calls may be recorded.