

Diversified Fund Range

Market preview

Global equities rebounded in the final quarter of the year on signs that European leaders are coming to an agreement on how to address the European sovereign debt issue. US equities were the strongest performers as US economic data started to show some signs of improvement with growth being announced at 0.6% for the quarter or 2.5% on an annualised basis. US housing and employment data also surprised positively, with a significant increase in new housing builds and a reduction in the number of people claiming unemployment benefits. Infrastructure investments performed well, as demand for alternative index-linked assets remained robust. In the fixed income market, the lack of prospects of an imminent rate hike increased appetite for gilts, lowering Britain's borrowing costs. The ongoing European crisis also made UK government bonds appear as a safe haven, lifting demand even more. High yield investments also performed well over the quarter.

Fund range performance and activity

The Funds delivered positive returns over the quarter as high yield and structured beta positions (where market exposure is provided through options) performed well. The Funds' large weighting in infrastructure investments also continued to perform well, generating positive returns over the quarter. Infrastructure remains very attractive to us as an asset class as we believe that the stable long-term income streams from real assets with inflation linkage are well suited to our Funds' objectives. A relative volatility position favouring the US over Europe was positive for performance as volatility in European markets remained high. Given the current uncertain backdrop, the portfolio managers continue to believe their cautious approach to managing the Funds is appropriate.

In terms of activity, the managers added some exposure to high yield bonds in the portfolio as yields in the asset class hit attractive levels. Equity exposure was also increased, with capital generally being rotated from positions in government bonds. A new position was added in Blackrock UK Focus which has demonstrated a consistent ability to deliver outperformance

over a long-term time horizon. In addition, the managers topped up an equity position in Liontrust Special Situations which has demonstrated a consistent ability to outperform the market since launch.

Outlook

Economic recovery remains reliant on continued support from central banks to low interest rates and a commitment to back up the funding requirements of highly indebted nations. This weak structural backdrop leads to considerable uncertainty in the investment outlook, with material tail risks of both deflation and inflation. Inflation could be an issue if policy measures work too well but a Japanese-style deflationary outcome is possible if the US government's policy measures fail. Furthermore, with no asset class looking particularly compelling from a valuation standpoint, we continue to believe our cautious approach and absolute return mentality remains well-suited to the current investment climate.

Within equities we have a preference for Asia where domestic growth drivers remain strong and in fixed income we favour higher yielding, short duration investments. We also like non-economically sensitive infrastructure assets, which deliver an attractive yield in a low income environment, as well as having the potential for some inflation protection.

While the investment environment remains challenging, we continue to believe that good opportunities exist within asset classes in a relative sense, and in general we have a preference for investment in a range of actively managed strategies which have a greater certainty of return and are not wholly reliant on continued upward market direction to generate performance. In addition, recent market volatility has highlighted the limited benefits of diversification in times of stress.

Please note the value of investments and any income from them will fluctuate and is not guaranteed (this may be partly due to exchange rate fluctuations). Investors may not get back the full amount invested.

For further information
please contact:

Institutional Business Development

business.development@insightinvestment.com
020 7321 1547

Wholesale Business Development

brokersupport@bnymellon.com
0500 66 00 00

International Business Development

internationalsales@bnymellon.com
+44 (0) 20 7163 2367

Telephone calls may be recorded.
Call charges may vary by provider.

Unless otherwise attributed the views and opinions expressed are those of the fund manager at the time of publication and are subject to change. The content of this document is valid for one month from date of issue.

This document is only directed at investors resident in jurisdictions where our funds are registered. It is not an offer or invitation to persons outside of those jurisdictions. Insight Investment reserves the right to reject any applications from outside of such jurisdictions. Issued by Insight Investment Funds Management Limited. Registered office 160 Queen Victoria Street, London EC4V 4LA. Registered in England and Wales. Registered number 1835691. Authorised and regulated by the Financial Services Authority. FSA Firm reference number 122259.