

Quarterly fund update

The Diversified Target Return Fund

APRIL 2010

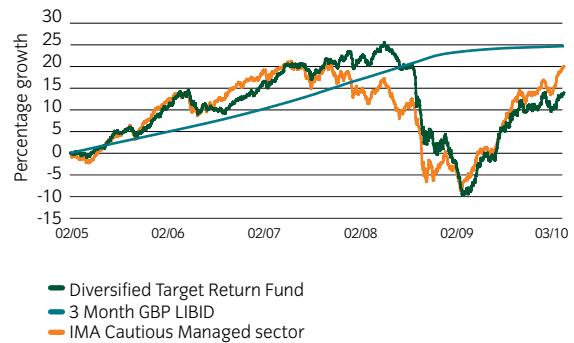
➤ A BNY MELLON COMPANYSM



Fund performance

The objective of the Diversified Target Return Fund is to deliver positive returns on an annual basis with the prospect of long-term capital growth commensurate with investment in equities.

- In the three months to the end of March 2010, the Fund returned 2.6% outperforming its cash benchmark.



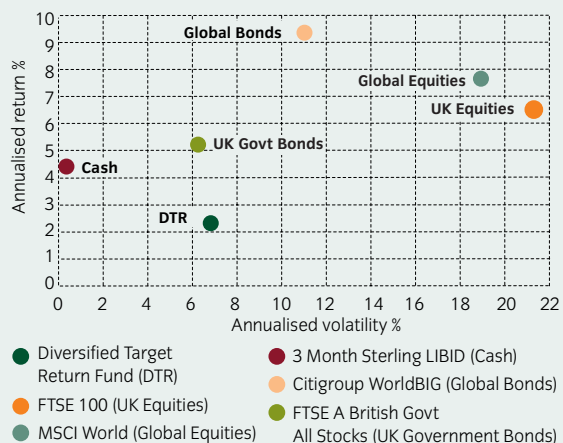
Source: Insight Investment. Basis: Total return mid to mid excluding the effect of initial charge. Inception date: 18/02/05. Data as at 31/03/10.

Attribution

- The Fund strongly outperformed its cash benchmark over the quarter, 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 holding in the Sniper Macau Property Fund was again one of the largest contributors to performance over the quarter. Shares in the investment trust were up over 22% for the period, as investors continued to buy into the region's property market.
- European holdings were also a strong area of positive performance for the Fund, with the Baring Europe Select trust and Ignis Argonaut European Alpha funds both markedly outperforming wider European equity markets.

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 statistics based on weekly data since 18/02/05.

Fund activity

- Early on in the quarter we trimmed our exposure to the Aberdeen Global Asia Pacific and JP Morgan Asia funds, 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 later added back exposure through the Schroder Asian Total Return fund, which employs bottom-up stock selection and has the ability to take short positions to help protect investor capital.
- 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.
- In Europe, we built a new position in the Cazenove European Equity fund. The fund is actively managed and currently has a focus on high quality, defensive companies which fits with our cautious view of the economic outlook. We also redeemed our holding in the Gartmore European Absolute Return fund following the suspension of one of the co-fund managers and will await clarity on the situation before considering reinvestment.

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

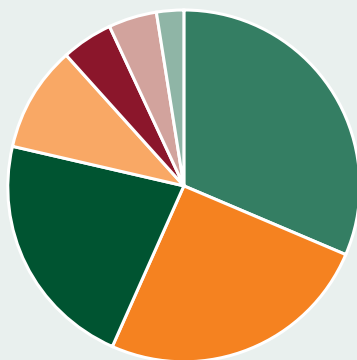
Recent economic data has continued to be relatively encouraging. It should be noted, however, that absolute levels of indicators such as unemployment and debt are still a serious concern and will, in our view, remain headwinds for any longer-term recovery.

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



Total return (31.4%)	Opportunistic (4.7%)
Fixed income (25.4%)	Real estate (4.4%)
Equity (22.0%)	Commodities (2.4%)
Cash (9.7%)	

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	9.7%
Cash	9.7%
Commodities	2.4%
MI Crop Rotation 23/12/2011	1.9%
Equity	22.0%
Nikkei 225 (cme) 10/06/2010	3.7%
FTSE 100 Index Call Option 18/03/2011	3.6%
Baring Europe Select Trust	2.9%
Impax Environmental Markets Fund	2.8%
iShares S&P Global Water 50	2.5%
DWS Global Agribusiness Fund	2.4%
Ignis Argonaut European Alpha Fund	2.0%
Aberdeen Global Asia Pacific Fund	2.0%
Blackrock UK Special Situations Fund	2.0%
JP Morgan Asia Fund	2.0%
Schroder UK Alpha Plus Fund	2.0%
Cazenove European Equity Fund	2.0%
Franklin Mutual European Fund	2.0%
Schroder Asian Total Return Fund	2.0%
JO Hambro Capital Management Fund	2.0%
HSBC Infrastructure Investment Trust	1.9%
Fidelity Global Health Care Fund	1.7%
UBS US Equity Fund	1.5%
Skandia US Large Cap Fund	1.5%
Russell 2000	1.0%
DJ Euro Stoxx 50 2400 Call Option 17/12/2010	1.0%
FTSE 100 Index Call Option 16/03/2012	0.9%
Pacific Alliance Asian Opportunities Fund	0.8%
F&C UK Opportunities Fund	0.7%
Polar Capital Healthcare Opportunities Fund	0.6%
FTSE 100 Index Call Option 18/06/2010	0.3%
China Growth Opportunities Fund	0.1%
Aberdeen Asian Income Fund	0.0%
FTSE 100 Index Call Option 18/06/2010	-0.2%
DJ Euro Stoxx 50 Dec10 3000 Call Option 17/12/2010	-0.3%
FTSE 100 Index Call Option 18/03/2011	-1.3%
S&P 500 Emini Future (cme) 18/06/2010	-4.5%
DJ Euro Stoxx 50 Future 18/06/2010	-8.5%
FTSE 100 Index Future 18/06/2010	-15.7%

Holding	Weight
Fixed Income	25.4%
M&G Global Convertibles Fund	4.1%
Schroder All Maturities Corporate Bond Fund	3.8%
Templeton Global Bond Fund	3.8%
Bluebay Investment Grade Bond Fund	3.8%
L&G Dynamic Bond Trust	3.1%
Monument RMBS Bond Fund	1.1%
Carillon Ltd Frn 10/01/2011	0.2%
Opportunistic	4.7%
DJ Euro Stoxx 50 Dividend Future 16/12/2011	2.2%
Merrill Lynch Commodity Alpha 26/05/2010	1.5%
Damile Investments Ltd	0.0%
Real Estate	4.4%
Sniper Macau Property Fund	1.7%
Celsius Asian Real Estate Fund	1.1%
Speymill Macau Property Fund	0.5%
Japan Residential Investment Fund	0.1%
Total Return	31.4%
Blackrock UK Absolute Alpha Fund	4.0%
Threadneedle Absolute Return Bond Fund	4.0%
Brevan Howard Macro Currency Fund	3.2%
Baring Absolute Return Global Bond Trust	2.4%
MW Tops Fund	2.2%
JP Morgan Income Opportunity Fund	1.9%
Société Générale Ivory 16/03/2015	1.9%
Fidelity Fast Euro Equity Market Neutral Fund	1.9%
Polar Capital UK Absolute Return Fund	1.1%
F&C Active Return Fund	1.0%
Third Point Offshore Investment Trust	0.9%
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 all rounding is to one decimal place.

Key holdings

M&G Global Convertibles Fund (4.1%)

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 and M&G has a large, experienced and well-resourced credit analysis team to take advantage of these conditions.

Blackrock UK Absolute Alpha Fund (4.0%)

Managed by Mark Lyttleton, the equity holdings in this portfolio consist of the best ideas from Mark's other successful funds. The fund also takes advantage of UCITS III legislation, which allows fund managers to gain short exposure to companies that appear overvalued.

Threadneedle Absolute Return Bond Fund (4.0%)

The fund aims to add alpha through directional, relative value, yield curve, sector and currency allocation trades. Strategy is run by an experienced team of fixed income professionals with varying backgrounds in investment management and derivative trading. The team uses qualitative and quantitative analysis to drive asset allocation and preservation of capital is a key consideration.

Schroder All Maturities Corporate Bond Fund (3.8%)

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.

Templeton Global Bond Fund (3.8%)

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 (3.8%)

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.

Brevan Howard Macro Currency Fund (3.2%)

This fund was launched on the back of the strong contribution from currency trading to the impressive long-term performance of the Brevan Howard master fund. The strategy has attractive upside potential in what looks set to be an environment full of opportunities for currency traders. Meanwhile, downside risk is tightly controlled in line with Brevan Howard's extremely rigorous approach to risk management.

L&G Dynamic Bond Trust (3.1%)

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

Baring European Select Trust (2.9%)

The fund manager focuses on smaller companies in European markets. We feel that as we exit the recession, there are greater opportunities for growth within this aspect of the broader equity universe.

Impax Environmental Markets Fund (2.8%)

The fund invests in three themes: alternative energy and energy efficiency; water technologies and pollution control; and waste technology and resource management. The fund has a strong bias towards smaller and younger companies, but invests the majority of its assets in businesses that are already profitable.

Reasons to recommend the Diversified Target Return Fund



- The objective of the Fund is to deliver positive returns on an annual basis with the prospect of long-term capital growth commensurate with investment in equities.
- It is a diversified portfolio with flexibility to move between global regions and asset classes including fixed income, equity, cash, real estate, commodities, total return and opportunistic holdings.
- The Fund has been awarded an A rating from Standard & Poors.
- 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

For more information please contact:

Wholesale Business Development
brokersupport@bnymellon.com
0500 66 00 00

www.insightinvestment.com

Telephone calls may be recorded.