

FOR PROFESSIONAL CLIENTS ONLY. NOT TO BE DISTRIBUTED TO RETAIL CLIENTS

The Fund aims to provide attractive, positive absolute returns in all market conditions through discretionary management and may employ a range of hedging techniques. It does this by investing primarily in a broad range of emerging market debt securities and financial derivative instruments. The Fund sits within our broader emerging market debt capability (which includes segregated accounts, income funds and pension fund pooled vehicles) and also forms part of our Absolute Insight range of Funds.

Insight has been managing both emerging market debt and absolute return portfolios for more than 10 years. This Fund is a multi-strategy fund targeting 'best ideas' in emerging market debt. It takes an absolute return approach, aiming to reduce the volatility normally associated with investing in emerging markets.

The Fund is designed to produce high risk-adjusted returns in a consistent and scalable fashion. Seeking to gain upside from the many and varied opportunities within a tightly-managed risk framework.

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

## The Fund

- Offers investors access to a market worth approximately US\$9 trillion, investing primarily in external and local government debt, external and local corporate debt, currencies and derivatives across the emerging market universe.
- Aims for absolute positive returns over rolling 12 month periods in all market conditions, while not being restricted to the exposures and weightings of a traditional emerging market debt benchmark.

## The approach

- **Detailed analysis** – the Fund's emphasis is on extensive macro-economic analysis combined with an absolute and relative valuation analysis.
- **Flexibility** – the use of derivatives gives the portfolio managers the ability to express both positive and negative views, targeting and/or removing particular risks in the emerging market bond market.
- **Specialist investment team** – the Emerging Market Debt Team forms part of Insight's large Fixed Income Team and is fully integrated within the investment infrastructure of Insight, benefiting from a wider pool of resources.
- **Superior risk management** – applied through Absolute Insight's multi-dimensional and integrated risk management framework.

➤ A BNY MELLON COMPANY<sup>SM</sup>

## Key benefits

- The Fund targets 'best ideas' in emerging market debt, while not being influenced by benchmark exposures and weightings
- The Fund is designed to generate alpha with low levels of volatility, in all market conditions
- The Fund can express both positive and negative views, aiming to generate performance in any market environment
- Insight has a large and experienced team of fixed income experts
- Investors in the Fund have access to daily liquidity



# Why emerging market debt?

## Wide opportunity set

In terms of size, emerging market debt is certainly not an asset class to be overlooked. The total size of the debt market (both government and corporate) is approximately \$9 trillion (chart 1). In terms of economic power (i.e. in GDP terms), emerging market countries are collectively larger than either North America or Europe and account for 35% of global trade. Both GDP and trade continue to grow rapidly, not least as emerging markets comprise 85% of the world's population. So the structural argument for long-term investment is very strong.

The emerging market debt universe consists of six sub-asset classes: external government debt and external corporate debt (mostly denominated in US dollars), local currency government and corporate bonds, currencies and derivatives. Credit quality varies from high investment grade to those with the lowest sub-investment grade rating.

## Healthier economies than developed markets

Developed markets are currently suffering from anaemic economic growth and rapidly deteriorating fiscal conditions. Emerging market economies have proved to be relatively resilient in the face of the global credit crisis (chart 2), generally enjoying robust growth and healthier fundamentals. Indeed, the structural improvement of the asset class has now been acknowledged by the rating agencies, with the average credit rating for emerging market external government debt reaching investment grade for the first time in January 2010.

## Low correlations

Another feature of emerging market bonds that sets them apart from bonds in developed markets (which tend to be highly correlated) is the diversity of opportunity. Emerging debt markets are very much driven by their own dynamics and position in the economic cycle. In addition, emerging market bonds have a low level of correlation with other markets (chart 3) while volatility compared to equities is also lower (chart 4).

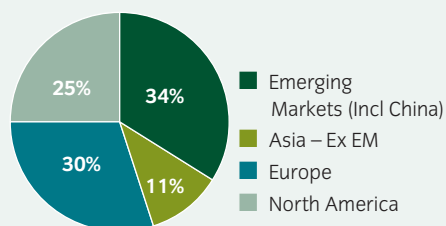
## About the Fund

Chart 3 – Correlation with other asset classes is low

	EM external govt	EM local govt	US Treasuries	UK gilts	S&P 500
EM external govt	1.00				
EM Local govt	0.71	1.00			
US Treasuries	0.19	0.41	1.00		
UK gilts	0.19	0.45	0.75	1.00	
S&P 500	0.53	0.36	-0.15	-0.05	1.00

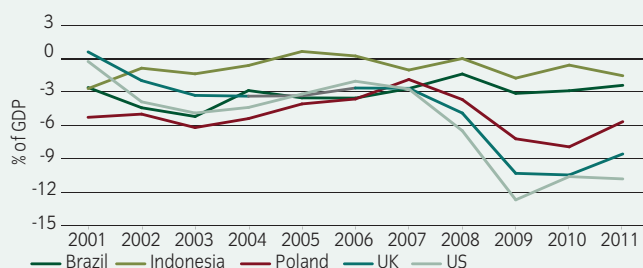
Source: Insight and JP Morgan. Data from end 2002 to June 2011.

Chart 1



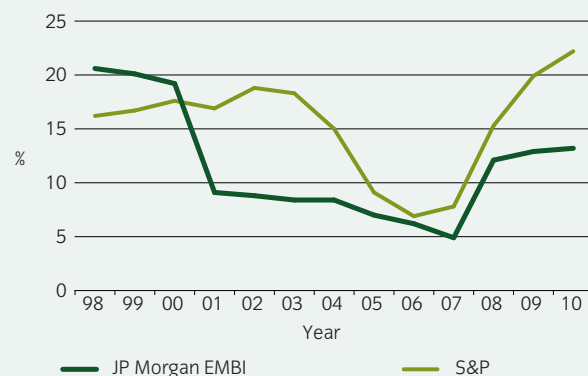
Source: IMF.

Chart 2 – Deteriorating UK and US fiscal deficits



Source: IMF.

Chart 4 – Volatility of emerging market debt vs equities



Source: Insight and JP Morgan. Volatility refers to the three-year annualised standard deviation based on monthly returns.

Insight has been managing emerging market debt portfolios for over 16 years. The Fund was first launched and managed as a Cayman vehicle in 2005, before being set up as a UCITS III fund in Ireland in 2007. Insight currently has over £650 million in emerging market debt assets under management<sup>1</sup>.

## UCITS III vehicle

The Fund is a sub-fund of Absolute Insight Funds plc, an Ireland-domiciled open-ended investment company.

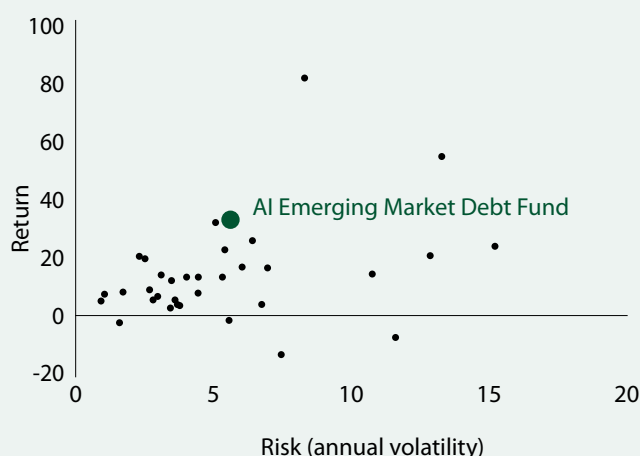
## Free from index constraints

The Fund is benchmarked against cash. The absence of a traditional emerging market debt benchmark frees the portfolio from being tied to particular weightings or exposures. Using a base of cash and near cash instruments the Fund aims to generate performance in any market environment, using derivatives to give the portfolio managers the ability to express negative views as well as positive ones. Derivatives allow the tactical management of overall portfolio risk exposure and can be an efficient use of portfolio cash.

## Active management of local currencies

We view the active management of local currencies as an important source of returns within the Fund. When we are holding a local market bond, the decision to hedge or not to hedge is an active decision. We may also take direct currency exposures to express a negative or positive view on the direction of a currency.

Risk/return profile of the Fund compares favourably against other funds in the IMA Absolute Return sector



Source: Lipper. Chart uses net performance and standard deviation figures over two year to end June 2011.

## Investment universe

External Government	External Corporate	Local Government	Local Corporate	Currency	Derivatives
Government bonds denominated in foreign currency e.g. Brazil govt in USD	Corporate bonds denominated in foreign currency e.g. Brasil Telecom in USD	Government bonds denominated in the local currency e.g. Brazil govt in BRL	Corporate bonds denominated in the local currency e.g. Gazprom in Rubles	EM currencies to hedge or as active position	CDS and CDX to hedge or to take active risks Interest rate swaps to take views on rising or falling rates or bond yields
<b>Fund allocation</b> Typical range 30 – 50%	<b>Fund allocation</b> Typical range 0 – 30%	<b>Fund allocation</b> Typical range 30 – 70%	<b>Fund allocation</b> Typical range 0 – 5%	<b>Fund allocation</b> Max 40%	<b>Fund allocation</b> Typical range 0 – 100%

<sup>1</sup> Source: Insight Investment, as at 30 June 2011.

# Fixed income philosophy

Insight's fixed income investment philosophy focuses on the delivery of consistent performance by virtue of two key investment principles: precision and diversification. While neither concept, if looked at individually, is necessarily unique, it is the way our investment managers combine and apply them that we believe is a unique approach to investment management.

Figure 1: Fixed income philosophy



**Precision:** In assessing investment opportunities, we seek to include only those elements of market risk that we consider attractive and we aim to eliminate unintended risks.

**Diversification:** We seek to add value through active management of risk and return across a broad range of investment opportunities using proprietary management techniques.

## Investment process

The Fund's investment process is built around a strong analytical framework designed to increase the competitive advantage of the portfolio decisions taken by the Emerging Market Debt Investment Team. The Team:

- Aims to identify key fundamental and market themes through individual country macro-analysis.
- Carries out micro-analysis of instruments and market depth, evaluating the best mechanism to express those themes.
- Selects and sizes risk/reward investment ideas in the context of security and portfolio characteristics.
- Incorporates global asset class trends by working within the strong analytical framework of the credit, currency, global bond and high yield teams.
- Actively manages portfolio risk and takes advantage of market volatility.

## How we identify our 'best ideas'

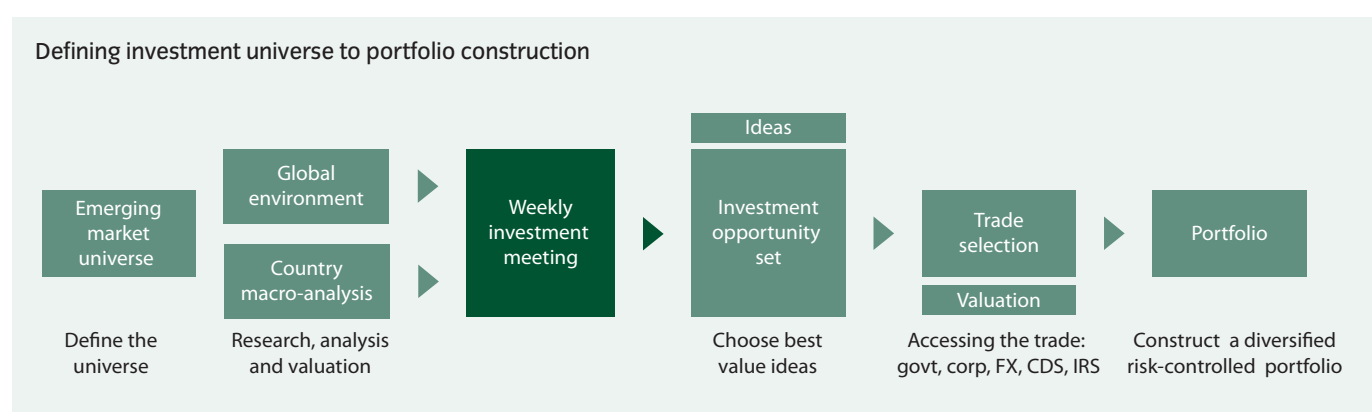
The investment process can be broken into the following stages, as illustrated in the diagram below:

### 1. Defining the investment universe

After identifying which countries are emerging market countries, we review the securities associated with each country, filtering which sub-asset classes may be practically invested in, much depending on regulatory and liquidity restrictions. The universe may shrink or grow as markets evolve.

### 2. Country macro-analysis and the global environment

We then carry out detailed analysis of each country, to ascertain whether creditworthiness is improving or deteriorating. Areas examined include fiscal/debt sustainability, balance of payments and external vulnerability, political structure and cycles and structural reform. These factors generate a matrix view of trends that affect external debt, local debt and currencies. Identification of the catalysts that can cause these trends to change are the key drivers of the investment team's fundamental view.



Our research process relies primarily on research conducted internally and draws on official country statistical data, multilateral data (IMF, World Bank, OECD, BIS), country research trips (Ministry of Finance, Central Bank, local investors etc.) and regular official meetings (in London). We also have access to the entire offering of sell-side research and analysis which we use to both question and complement our research opinions.

Our views are then incorporated with the views from the broader Fixed Income Team, putting events in emerging markets in a global context, especially with regard to global government bond, corporate bond and currency conditions.

### 3. Idea generation and trade selection

Where country models highlight evolving themes, we consider valuation and market technical measures, valuing each of the sub-asset classes on an absolute and relative basis. The absolute level of nominal and real yields, basis and steepness of curves is valued daily on an individual country, cross-country and regional level. These levels are considered in the context of market dynamics established within the country model and also across the asset class as a whole so that valuation conclusions are not just quantitative, but also qualitative. Similarly, sub-asset classes are compared relative to country credit ratings. While such ratings are ignored in the analytical process, the valuation/rating comparison establishes a crude measure of the current market valuation of 'like-for-like' credits.

### 4. Portfolio construction

The portfolio manager selects those trades which are most likely to capture the best risk/reward opportunities from the investable emerging market debt. Each trade is assessed for its specific volatility characteristics so that the concentration of the position is appropriate for the portfolio. A risk/reward assessment is completed prior to investment execution, on a position basis and on a portfolio level, determining the potential basis point contribution to the overall portfolio return, in the context of the target return as well as the stop-loss level for the trade.

# Monitoring risk

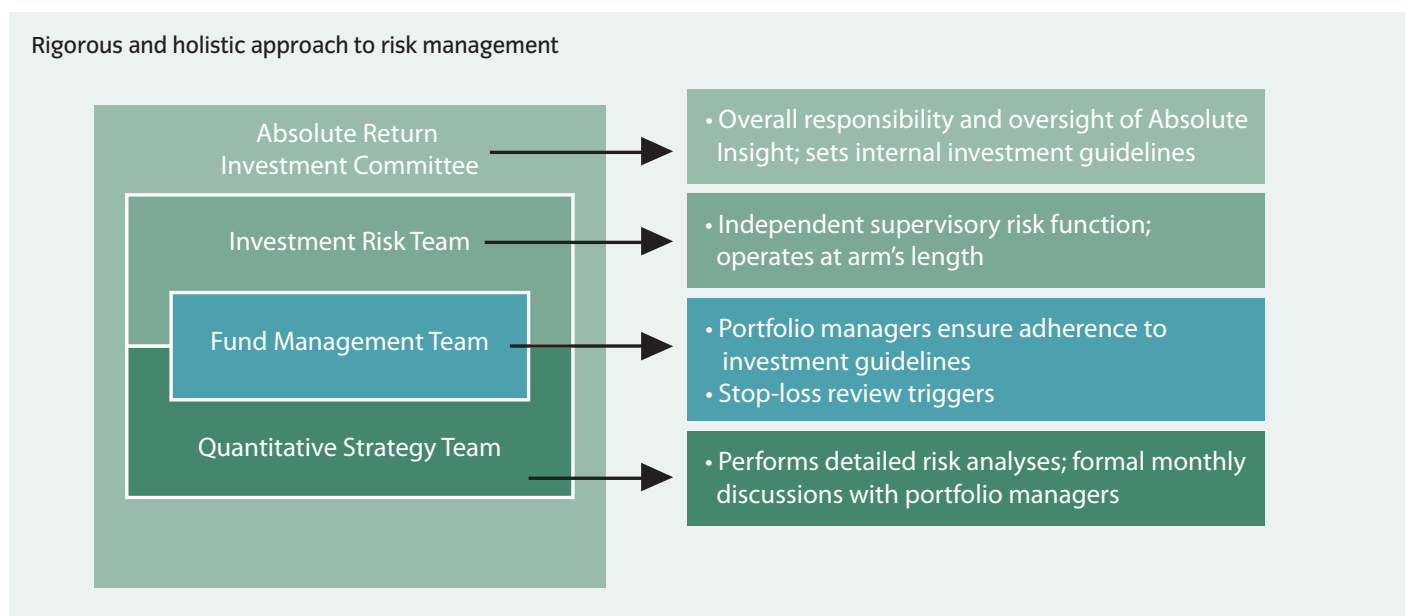
The risks inherent in investing in emerging market bonds can be defined very broadly as interest rate, currency risk and credit risk, and it is important to understand each one. In essence, our investment process is designed to manage and control these risks.

Risk exposure and limits are monitored at both a portfolio level and individual position level on an intra-day basis. The Team uses a DV01 methodology (DV01 is a bond valuation calculation indicating how much the value of a bond would change for a 1% (100bps) move in a bond's yield) as we believe it to be the best way to monitor risk across a multi credit/interest rate/currency asset class such as emerging markets. The Risk and Investment Teams have analysed return behaviour for each sub-asset class in order to define volatility characteristics at a country and instrument level. That then allows us to adapt the standard DV01 measure of each position to more accurately reflect portfolio sensitivity outcomes. In essence this approach allows us to compare very different types of exposures in the portfolio and how much of a contribution they might add to (or remove from) performance.

Prior to a trade, we test portfolio scenario sensitivities to ensure that the position size and risk/reward is appropriate. This sizing is evaluated in regard to the stop-loss protocol for each risk (country) bucket.

## Multi-dimensional risk management

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



- The **Absolute Return Investment Committee** 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 **Investment Risk 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.
- Each of the **fund management teams** is responsible for running their underlying strategies within their set limits.

## Risk parameters

The Fund is subject to a series of criterion as required by the regulator. In addition, we have imposed a series of constraints and limits which are consistent with the Fund's investment objective. The Fund is constrained by the following:

- gross exposure
- DV01
- stress tests

## Counterparty risk

Insight's **Risk Management Team** monitors and ensures compliance with all aspects of business risk including the use of derivatives. We have a clear process for the selection of approved counterparties. We apply credit guidelines and maintain a list of approved counterparties, which is continually monitored and formally reviewed on a regular basis.

## Our team

The Fund has been managed by Colm McDonagh, Insight's Head of Emerging Market Debt, since November 2008. Colm has worked in the area of emerging market debt since 1996. The Emerging Market Debt Investment Team is responsible for portfolio strategy and performance. The Team is located in London, sitting alongside Insight's government bond, credit and currency specialists, allowing for effective collaboration in the development and debate of investment ideas.

### Colm McDonagh

#### Head of Emerging Market Debt

Colm joined Insight in October 2008 as Head of Emerging Market Debt. Prior to Insight, Colm was a partner at Hydra Capital Management Ltd, an emerging market fixed income boutique he joined in January 2006, where he managed both alternative and traditional emerging market strategies. He was Head of Global Emerging Market Debt at Aberdeen Asset Management until November 2005, responsible for total return and income funds for institutional and retail clients. Colm began his investment career as an Emerging Market Eurobond trader in 1996 at Bank of America. He graduated with a Bachelor of Business and Legal Studies honours degree in Finance and Law from University College Dublin.

### Rodica Glavan

#### Portfolio Manager, Emerging Market Debt

Rodica joined Insight as an Emerging Market Debt Portfolio Manager in December 2006. Before joining Insight, she worked at Schroder Investment Management Limited, London for two years managing emerging markets for their global portfolios. Rodica started her career in 1999 as a sovereign analyst for emerging markets at Schrodgers in New York. Rodica holds a BBA degree in Economics and Finance from University of Alaska Anchorage, USA. She also holds the Investment Management Certificate from the UK Society of Investment Professionals and speaks four languages.

### Robert Simpson

#### Portfolio Manager, Emerging Market Debt

Robert joined Insight in September 2005 as part of the graduate trainee programme. He initially spent time with the Institutional Business Development Team and in December 2005 transferred to the Fixed Income Team to take up a role assisting in the management of emerging market debt portfolios. Robert holds a BSc honours degree in Pharmacology and a Masters in Finance and Economics, both from the University of Manchester. He is also an Associate of the CFA Society of the UK.

## Fund specifics

Objective	To provide attractive, positive absolute returns in all market conditions
Investment universe	Interest rate and exchange rate strategies across a range of emerging market bond markets, using a full range of emerging market debt securities and financial derivative instruments, alongside other instruments when deemed appropriate
Investment strategy	Multi-strategy fund targeting best ideas in emerging market debt
Scheme type	Open Ended Investment Company, UCITS III
Domicile/Listing	Ireland/Irish Stock Exchange
IMA classification	Absolute Return
Benchmark	3-month US LIBID (defined as 3-month US LIBOR minus 0.1% per annum)
Inception date	28 February 2007
Share classes	Accumulation shares
Currency denomination	Sterling, Euros and US Dollars
Annual Management Charge (AMC) <sup>2</sup>	Institutional (B1p) 1%, Retail (Ap) 1.5%
Performance fee	10% of any performance in excess of the benchmark return and net of AMC (subject to high water mark as defined in the prospectus)
Dealing frequency	Daily
Valuation basis	Swinging single price
Platforms	Ascentric (FundsDirect), Aviva, Axa, Cofunds, Hargreaves Lansdown (Vantage), Novia, Nucleus, Transact

<sup>2</sup> AMC for other share classes may vary. For full product details please refer to the Funds Prospectus, available on our website.

## 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 £137.3 billion in assets under management<sup>3</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 governments, charities and other financial institutions.

<sup>3</sup> As of 30 June 2011 represented by the value of physical securities and liability benchmarks.

## Find out more

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

### Consultant Relationship Management

consultantrelations@insightinvestment.com

020 7321 1209

### Client Relationship Management

cddirect@insightinvestment.com

020 7321 1499

### www.insightinvestment.com

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