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The Absolute Insight Credit Fund aims to provide attractive, positive absolute returns in all market conditions through the use of a fully flexible long and short credit strategy. This Fund forms part of the Absolute Insight range of funds.

The Fund follows a multi-strategy investment approach searching for opportunities across the credit spectrum. The Fund's broad investment universe includes investment grade and high yield corporate debt, structured credit such as asset backed securities (ABS), loans and cash instruments, along with a full range of derivatives such as credit default swaps on single names and indices, interest rate and inflation swaps, futures, forwards and options.

The investment rationale is primarily to identify idiosyncratic credit opportunities and exploit pricing anomalies in the market, but also to take (long or short) directional views. The range of strategies which might be used by the portfolio managers include carry, momentum (long or short credit), special situations (distressed), capital and market structure arbitrage, tactical macro, basis trades, as well as risk hedging techniques.

Unique opportunity

The Fund

- Aims for absolute positive returns with investment grade levels of volatility – targets high risk-adjusted returns from alpha and beta opportunities.
- **Broad investment universe** – including investment grade and high yield corporate bonds, asset backed securities, loans and cash instruments; in addition, a wide range of derivatives are used both for investment and hedging purposes.
- **No benchmark constraints** – by using a cash benchmark, the Fund does not have to track a falling index.

The approach

- **'Best ideas' portfolio construction** – combining in-depth credit analysis with a multi-strategy approach.
- **Fully flexible mandate** – providing investors with access to a diversified range of credit trading strategies to identify idiosyncratic credit risk opportunities, with the ability to take long or short directional views.

Insight's expertise

- **Superior risk management** – applied through a multi-dimensional and integrated risk management framework.
- **Large specialist investment teams** – fully integrated within the investment infrastructure of Insight, benefitting from scale of resources.

UCITS III vehicle

- **UCITS III compliant** – providing a high degree of investor protection in regard to risk and liquidity management, regulation and transparency.

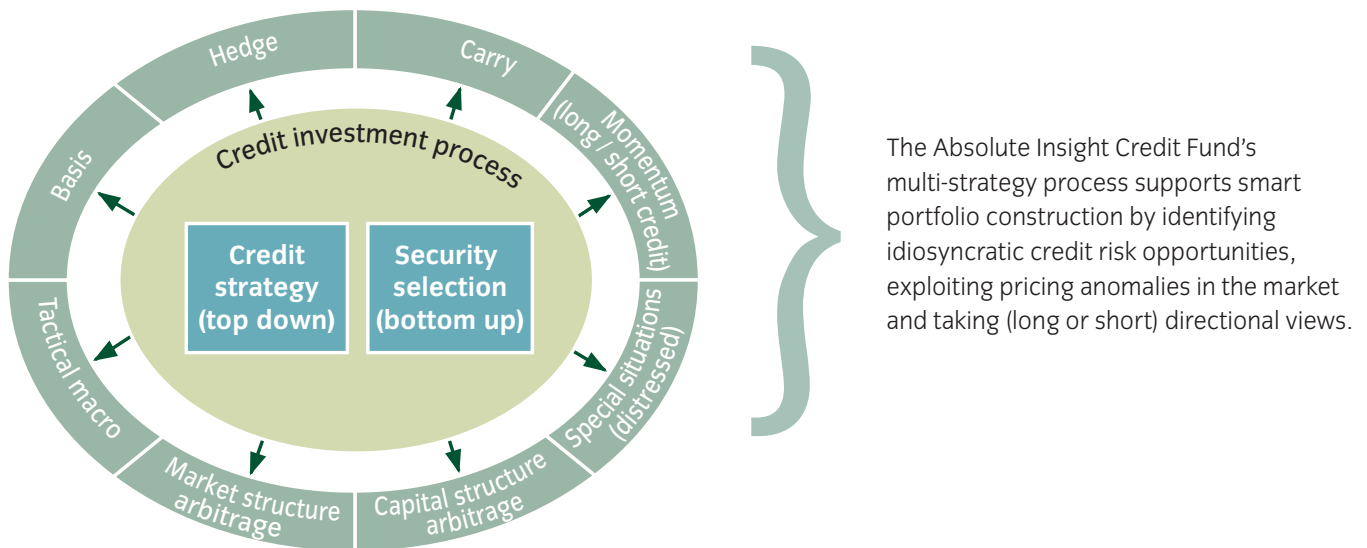
Key benefits

- 'Best ideas' credit fund able to perform well in all market conditions
- Fully flexible mandate using a broad range of strategies to identify idiosyncratic credit opportunities
- Multi-dimensional risk management approach to protect from downside risk
- Large specialist investment team supported by Insight's fixed income structure
- Irish regulated UCITS III structure for a high degree of liquidity, regulation and transparency

Investment approach

The Absolute Insight Credit Fund utilises Insight’s investment process for credit combined with a multi-strategy approach to come up with a smart portfolio of ‘best ideas’ from across the credit spectrum. This multi-strategy approach allows the Fund to make use of a broad range of strategic and tactical credit opportunities to generate superior returns from both alpha and beta opportunities. The cornerstone of this multi-strategy approach is an investment process that is focussed on in-depth credit analysis and rigorous risk management.

Figure 1: A multi-strategy approach



‘Best ideas’ portfolio construction

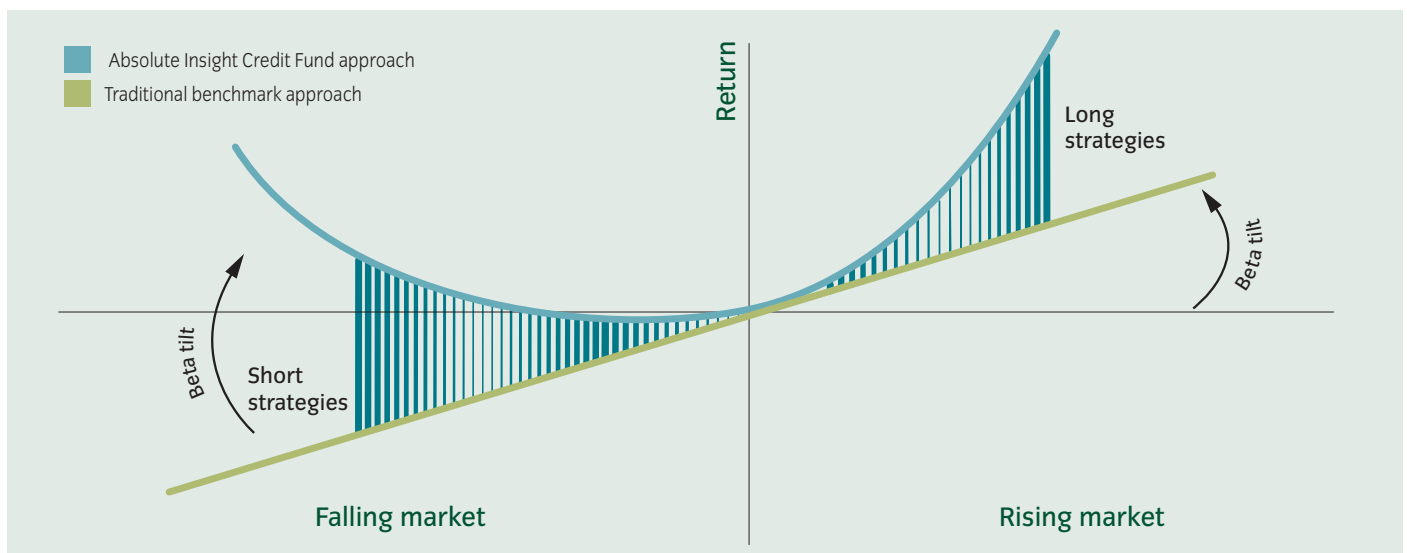
Flexibility through a multi-asset class and multi-strategy approach

‘Best ideas’ portfolio construction for the Absolute Insight Credit Fund involves the design of a portfolio capable of meeting its performance targets by identifying idiosyncratic credit opportunities and exploiting pricing anomalies in the market. The Fund identifies best-in-class credit opportunities to protect from downside risk and to maximise market upside.

The Fund combines ‘best ideas’ from across the credit spectrum with a multi-strategy approach by employing a broad range of credit trading strategies such as carry, momentum (long or short credit) special situations (distressed), capital and market structure arbitrage, tactical macro and basis trades, as well as risk hedging techniques.

The Fund focuses on alpha generation, with the ability to take an overall directional market tilt:

Figure 2: Aiming to provide positive returns in all market conditions



When constructing our Fund, we are measuring the success of our strategies against a cash benchmark, 3-month GBP LIBID. Therefore, we are not constrained to an index benchmark and this means the Fund does not have to track a falling index.

We illustrate how the Absolute Insight Credit Fund utilises credit trading strategies below:

Figure 3: Credit trading strategies

Type of strategy	Investment grade	High Yield	ABS	Derivatives	Loans
Carry	✓	✓	✓	✓	✓
Momentum long or short credit	✓	✓	✗	✓	✗
Special situations	✓	✓	✓	✓	✓
Capital structure arbitrage	✓	✓	✗	✓	✗
Market structure arbitrage	✓	✓	✗	✓	✗
Tactical Macro	✓	✓	✓	✓	✓
Basis	✓	✓	✓	✓	✗
Hedge	✓	✓	✗	✓	✗

The strategies outlined above are used as follows:

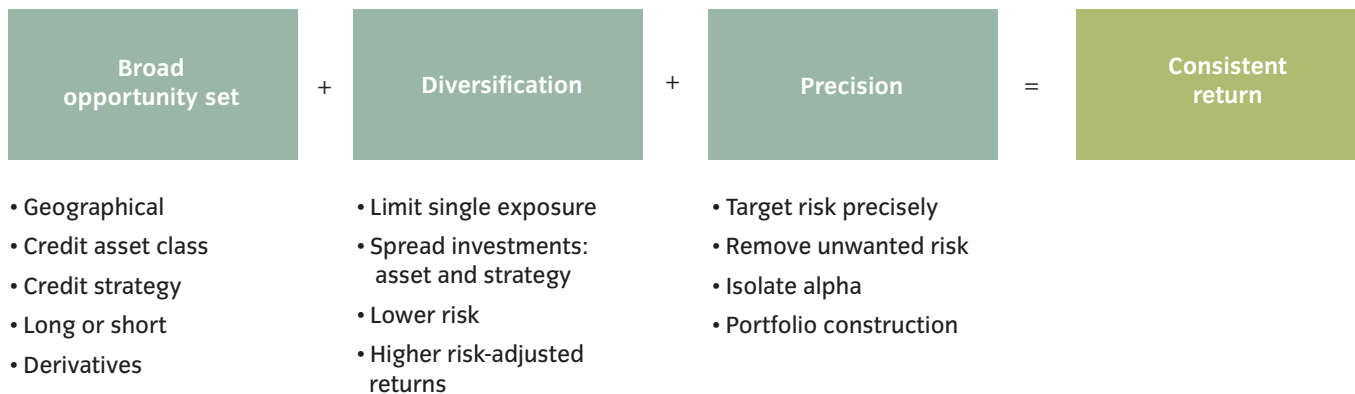
- **Carry:** buying short maturity cash, stable yield bonds or credit default swaps (CDS) based on fundamental analysis on a strategic basis at attractive yields.
- **Momentum – long or short credit:** to buy or sell specific credit exposure to express a directional view on the spread.
- **Special situations – distressed:** to focus on distressed bonds and event-driven situations such as mergers or leveraged buy-outs.
- **Capital structure arbitrage:** to select between loan, bond or equity exposure to a company and to go ‘long’ one step and ‘short’ another.
- **Market structure arbitrage:** to identify the most economical markets and to go ‘long’ one step and ‘short’ another.
- **Tactical Macro:** to buy or sell specific credit market exposure to express a directional view on the spread.
- **Basis:** to exploit anomalies between the cash, bonds and derivatives market.
- **Hedge:** to avoid unwanted market risk through the use of derivatives.

The holding period of the strategies outlined above will vary depending on the structure of the trade and market volatility.

Fixed income philosophy

Insight's fixed income philosophy focuses on the aim to deliver consistent performance by virtue of three key investment principles: **broad opportunity set**, **diversification** and **precision**.

Figure 4: Fixed income philosophy



Whilst these concepts, if looked at individually, are not necessarily unique, it is the way our investment managers combine and apply them that we believe is a unique approach to investment management:

- **The broad opportunity set** gives portfolio managers the flexibility to adjust investment strategy to changing market conditions.
- **Diversification** across credit strategy and instrument minimises the risk particular to a single entity, lowers volatility and increases risk-adjusted returns.
- We use **precision** when targeting investments, seeking to add value through active management of risk and return and using proprietary portfolio construction techniques.

Credit investment process

There are a number of important components to Insight's credit investment process that together deliver on the principles of diversification and precision:

- **Credit strategy** – determining long and short term credit market and sector positioning to identify the overall position.
- **Security selection** – identifying securities for additional investment returns via bottom-up company research and analysis of market value.

Our credit investment process is driven by the combination of these factors and implemented via our specialist investment teams. The combination of these independent inputs has helped us generate strong and consistent performance track records in many different market conditions.

Credit strategy

Our credit strategy is a top-down approach which combines both long-term strategic forecasts and shorter-term tactical views (market allocation) with sector strategy decisions to access a broad range of sources of return.

Figure 5: Credit strategy



Market allocation

We form a view on which part of the market we aim to allocate to based on two key factors – strategic and tactical value.

Strategic forecast: the strategic forecast for the market over the next twelve months is based primarily on fundamental economic analysis of our credit market segments. This proprietary analysis is broken down into two parts:

- Firstly, our in-house credit strategist quantifies expected loss arising from defaults (adjusted for recovery value) using a number of fundamental variables, such as economic growth, corporate leverage and lending conditions. This analysis seeks to identify whether investors are adequately compensated for the risks of default in all types of credit.
- Secondly, the credit team assesses the additional risk premium required given current market conditions such as the market's appetite for risk, volatility and trends in issuance.

Together, these steps provide us with the market spread forecast from which we can calculate an expected excess return.

Tactical views: the next step in the decision-making process is our tactical view of the market place, typically of up to three months. This takes investor positions and sentiment into account when considering how to time the allocation of the risk budget to credit.

Sector strategy / filter

Our sector allocation recommendations are based on the collective views of the analysis team on fundamentals, technicals and valuations for each of our predefined sectors. These views are then each assigned a rating of under/neutral/over-weight.

Security selection

The universe for credit within our fixed income portfolios covers four main areas; investment grade credit, high yield, loans and asset backed securities. Within these areas we also consider the merits of cash bonds versus the derivative alternative.

To identify value we screen from two perspectives:

- Where an edge can be gained from fundamental analysis
- Identify tradable issues for relative value opportunities

Our credit universe is screened on a weekly basis by the credit analysis team when research priorities are reassessed in consultation with portfolio managers.

To complement our fundamental research based analysis we also employ a range of quantitative tools to assist us in filtering information and help us identify opportunities.

We conduct a regular credit analysis to evaluate the likelihood of future changes in a company's credit rating and also the potential for a sudden change in credit quality. Particular attention is paid to the scoring of key risks in a 'land mine checklist'. The land mine checklist examines important sources of risk which can lead to a sudden deterioration in credit quality. This checklist covers liquidity risk, contingent liabilities, regulatory risk, litigation risk, governance and accounting and event risk. These factors are scored on a scale of one to five, with higher numbers indicating more risk and scores greater than four highlighting areas of significant concern.

Our credit analysts are assisted by specialist input from colleagues in our Responsible Investment team who monitor emerging social or environmental risks such as new regulatory requirements or consumer trends. Unless all the components of land mine risk are analysed and evaluated to the satisfaction of the credit analyst and the broader credit team, we will not consider a purchase for the Fund. All corporate issuers we analyse are evaluated in this way before a purchase is made.

Specialist credit team

Our process is driven by our 20-strong specialist credit team¹. Our investment experts are specialists, not generalists. Each has their own focused area of market expertise, which gives us the skills and resources to analyse the very broad range of the investment opportunities available to us.

The most important aid to decision-making is ensuring effective communication between analysts, portfolio managers and traders. To achieve this, we have established a formal meeting structure. This structure encompasses daily, weekly and monthly meetings and is designed specifically to allow individuals to express their investment views in a structured and process-led environment. Our portfolio managers extract the best ideas out of these meetings when selecting the credit securities for the Fund.

Figure 6: Idea generation framework

Daily	Team meeting <ul style="list-style-type: none"> • Market update • Economic update • Trade update 					
Weekly	UK government <ul style="list-style-type: none"> • Duration • Yield curve • Stock selection • Index linked • Non-UK spreads 	International government <ul style="list-style-type: none"> • Duration • Yield curve • Country spreads 	Credit portfolio meeting <ul style="list-style-type: none"> • Coverage priority • Market review • Positions update 	Credit research meeting <ul style="list-style-type: none"> • Sector reviews • Issuer review 	Currency <ul style="list-style-type: none"> • Currency allocation 	Emerging market debt <ul style="list-style-type: none"> • Market allocation • Currency allocation • Stock selection
Monthly	Economics <ul style="list-style-type: none"> • Economic analysis • Short rate forecasts 	Fixed income allocation <ul style="list-style-type: none"> • Market forecasts • Risk environment • Valuations • HY vs EMD vs IG 	Credit strategy <ul style="list-style-type: none"> • Fundamentals • Valuations • Market conditions • Credit Beta 	Money Markets counterparty review <ul style="list-style-type: none"> • Liquidity Fund specific • Counterparty fundamentals 		

¹ As at 31 December 2009.

Risk management

Multi-dimensional risk management

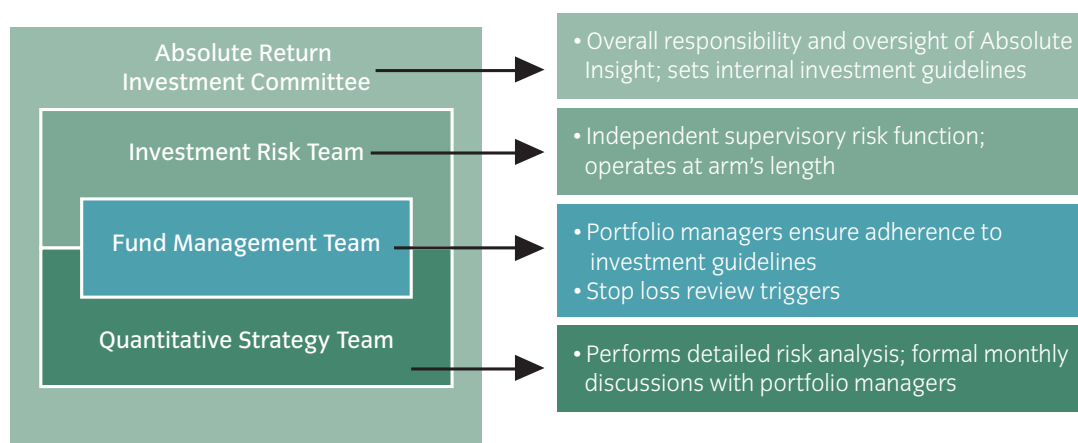
The Absolute Insight Credit Fund takes a multi-dimensional approach to risk management.

Different Insight parties are included in the risk management process including the **Risk Management Team**, **Quantitative Risk Team**, **Absolute Return Investment Committee (ARIC)** and the **portfolio managers**:

- 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. Within these guidelines and the guidelines set out in the prospectus, the portfolio managers have full discretion on the construction of 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 any breach. Formal risk reports are produced and reviewed on a weekly basis.
- 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 such as sensitivity analysis and stress testing. The team identify and communicate any unintended biases in the funds to the ARIC.
- The **portfolio managers** run the Fund within their set risk limits and monitor them on a daily and intra-day basis. This includes Value-at-Risk (VaR) and, where appropriate, gross and net exposure, beta and modified duration.

Managing and understanding portfolio risk is a strategic objective at Insight and a key factor in achieving consistent performance.

Figure 7: Rigorous risk management approach



UCITS III vehicle

The Fund complies with UCITS III regulations in regard to liquidity, transparency, diversification and risk management.

Under these UCITS III risk regulations, it is recommended to use the VaR methodology to monitor risk and our portfolio managers have to measure the VaR on a daily basis. The VaR is calculated using a one year time horizon, based on the maximum drawdown over a two week holding period with 99% probability. In addition, UCITS III guidelines also require stress testing on sophisticated funds on at least a quarterly basis.

However, we do not use VaR in isolation but as part of our multi-dimensional risk management approach which is supported by our risk teams, internal guidelines and regular stress tests, as outlined in the section above.

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 £88.1 billion in assets under management² 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.

² As at 31 December 2009.

Fund breakdown

The Absolute Insight Credit Fund's risk budget is diversified across a range of strategies that can vary depending on the opportunities in the market.

Figure 8: Indicative snapshot portfolio – VaR allocation ³

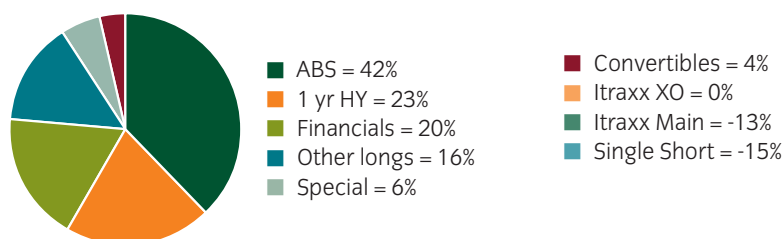


Figure 9: Indicative snapshot portfolio ³

	Capital size	Spread duration	Carry
Long			
ABS	56%	2.5	1758
1 yr HY	58%	1.0	366
Convertibles	5%	3.7	0
Financials	11%	6.2	200
Special Situations	5%	3.2	1671
Other longs	18%	4.4	582
Itraxx Main	0%	4.2	85
Total	153%	2.5	791
Short			
Itraxx XO	0%	4.0	585
Itraxx Main	-53%	4.2	85
Single Name Shorts	-17%	4.2	155
Total	-70%	4.2	102
Total	83%	0.8	1336

Fund specifics

Investment universe:	Global investment grade and high yield corporate debt, structured credit such as asset backed securities (ABS), loan debt and cash instruments; along with a full range of derivatives such as credit default swaps on single names and indices, interest rate and inflation swaps, futures, forwards and options.
Objective:	The investment objective of the Fund is to provide attractive, positive absolute returns in all market conditions.
Benchmark:	Sterling 3-month LIBID (defined as LIBOR minus 0.125% per annum).
Fund structure:	UCITS III
Domicile:	Ireland
Listing:	Irish Stock Exchange
Currency:	Sterling / Euro
Share classes:	Institutional and retail share classes are available, with different minimum investment amounts and annual management charges.
Pricing:	Twice monthly NAV calculation
Custodian:	State Street Custodial Services (Ireland) Limited
Administrator:	State Street Fund Services (Ireland) Limited

³ Figure 8 and 9: The snapshot portfolio is purely illustrative. It is based on strategies and the types of investments which might be employed by the Absolute Insight Credit Fund.

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 33 Old Broad Street, London EC2N 1HZ. Registered in England and Wales. Registered number 1835691. Authorised and regulated by the Financial Services Authority.

Our team

Alex Veroude

Head of Credit

Alex joined the fixed income team at Insight in July 2007 as Head of Credit, overseeing all fixed income credit activities. Alex began his career at Gulf International Bank in 1997, first as a high yield analyst before managing structured product portfolios. Alex was previously Head of Structured Products then was appointed as Head of Credit in 2005 and was responsible for managing a range of long-short credit portfolios.

Peter Bentley

Head of UK Credit

Peter joined Insight in January 2008 as Head of UK Credit. Prior to joining Insight, Peter spent four years at Pimco Europe where he was a Senior Vice President portfolio manager responsible for the management and strategy of both long only and long-short credit funds. He began his investment career with four years at the Bank of England as a graduate analyst in the financial market division before progressing to the role of supervisory manager, regulating gilt and money market institutions. This was followed by three years at Schroder Investment Management Limited as a portfolio manager and then four years at Morley Investment Management as a portfolio manager responsible for the management and strategy of institutional credit funds.

Find out more

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