

Your guide to performance fees

The following methodology became effective on 1 January 2011

As performance fees are becoming increasingly common within asset management we have designed this guide to help provide an understanding of Insight Investment's performance fee structure and how an investor might be impacted if subject to a performance fee.

We start with an explanation of the performance fee structure and then work through several examples; firstly, a simplified example, assuming that no subscriptions or redemptions take place during the annual calculation period and then goes on to look at the process in more detail by allowing for subscriptions and redemptions.

For information regarding which investments are subject to the fee please refer to the relevant fund prospectus on our website or contact your financial adviser. We have included a glossary on the back page which lists definitions of the technical terms used in this guide.

What is the performance fee?

A performance fee of 10% is paid when the fund manager outperforms their benchmark, a point known as the hurdle rate, and makes up for any previous negative performance periods by outperforming a point known as the high water mark.

How is the performance fee calculated and applied?

To ensure the fee accurately reflects returns delivered to investors as a whole, the fee is calculated by first grouping the shares in issue into 'lots' of shares subscribed for on the same date. The fee is then calculated for each lot separately and the total amount for all lots is paid to Insight. This total is borne by all investors in the fund in proportion to the size of their holding.

When is the performance fee paid?

The fund pays the performance fee to Insight on the 31 January, one month after the end of the annual calculation period. Where shares are redeemed, the fee payable in respect of those shares is also paid within one month of the date of redemption.

When is the fee calculated?

The fee is calculated on a daily basis and is then accrued within the share price for that day. The next day, when the fee calculation is carried out again, the accrual is adjusted up or down as appropriate.

It is important to note that the amount accrued in the share price is not actually paid to Insight daily. Payment only occurs after the end of the annual calculation period or on the redemption of shares on condition that Insight has earned the performance fee over that period.

This mechanism ensures that on any particular day, the share price reflects the best estimate of how the performance fee is building up and further ensures that if a fee is payable at the end of the year, there is no impact to the share price.

A glossary of key terms and abbreviations can be found towards the back of this document.

A full glossary of terms can be found on our website www.insightinvestment.com

A simplified performance fee calculation

To form the basic level of understanding on which we can build upon, we consider the following simplified scenario in which investors do not enter or exit the fund.

Example 1 – illustrating where a performance fee would be payable

31 December 2010:

NAV per share = 100p

10,000 shares in issue

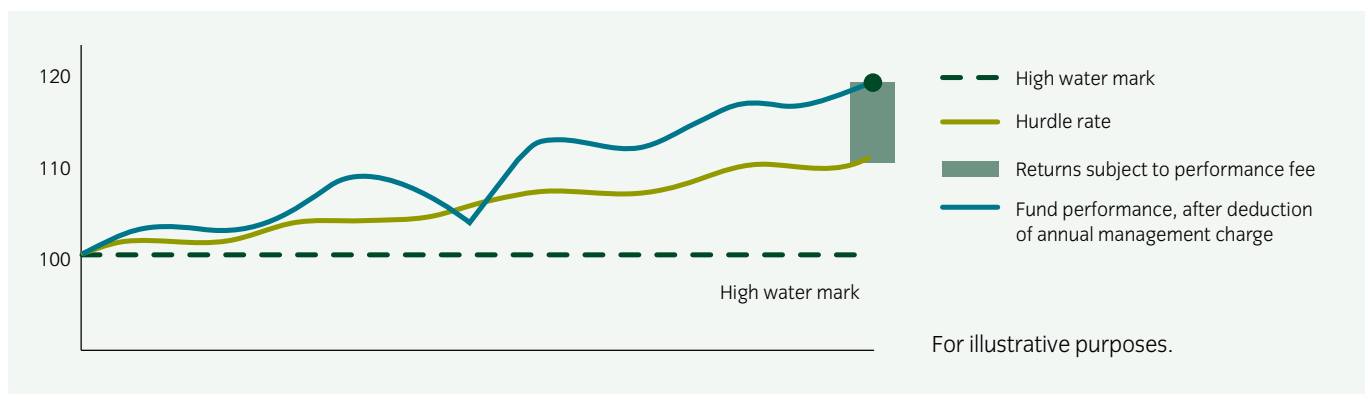
High water mark = 100p

31 December 2011:

GAV per share = 110p

No subscriptions or redemptions during the period

Hurdle rate = 5%



Performance fee calculation

Calculation date	31 December 2011
What is the target share price?	105p. This is the Hurdle rate of 5% applied to the NAV per share at 31 December 2010 of 100p.
Has the fund beaten the target?	Yes. The final GAV per share is 110p, which is 5p per share higher.
Is a performance fee payable?	Yes, 0.5p per share. The fund has beaten the target NAV per share. The performance fee is 10% of the excess over the target NAV per share. That is 10% of 5p or 0.5p per share.
What is the final NAV per share?	109.5p. This is the final GAV per share of 110p less the performance fee of 0.5p per share.

What would be the implications for investors?

The fee calculated above is payable to Insight within one month. If the NAV per share were to fall in subsequent periods, there would be no rebate of this performance fee. In determining the target price for the next performance period, the hurdle rate would be applied to the final NAV per share of 109.5p.

The high water mark is therefore 109.5p for the next performance period, and will remain at this level until it is exceeded at the end of a future performance period.

The performance fee in more detail

Up to here we have covered a simplified application of the performance fee structure. The next three examples allow for more complex scenarios in which investors enter and exit the fund. These scenarios are designed to offer a more in depth understanding of how the performance fee is applied.

Example 2 – illustrating the impact of subscriptions during the period

In this example, shares are issued mid-way through the period. The total performance fee payable for the fund at the end of the period is calculated as the sum of the performance fees determined separately for Lot 1 and Lot 2 as illustrated below.

31 December 2010:

NAV per share = 100p

10,000 shares in issue (Lot 1)

High water mark for Lot 1 shares = 100p

30 June 2011:

NAV per share has risen to 120p

Further 2,500 shares subscribed for (Lot 2) at 120p per share

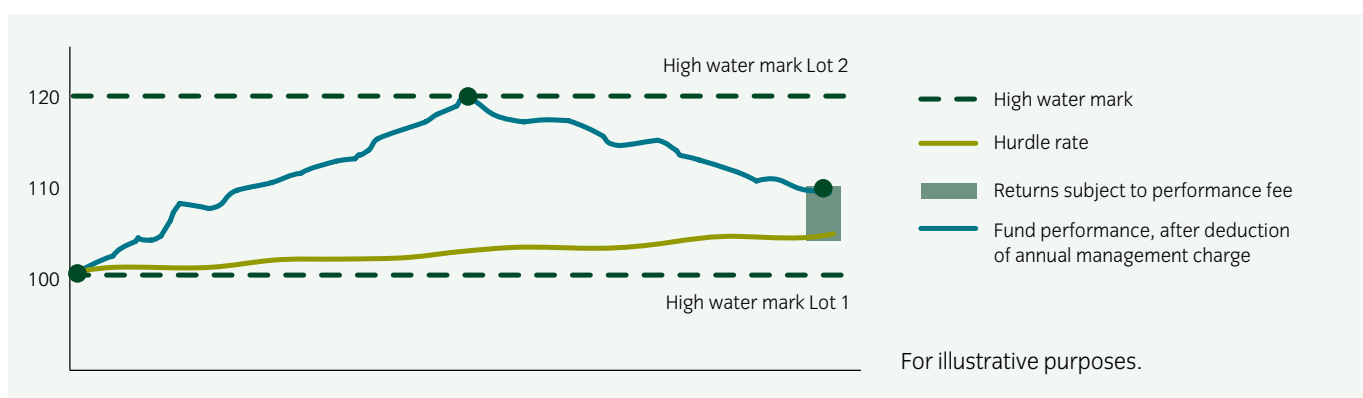
High water mark for Lot 2 shares = 120p

31 December 2011:

GAV per share = 110p

No redemptions during period

Hurdle rate = 5%



Performance fee calculation

Calculation date	31 December 2011 (Lot 1)	31 December 2011 (Lot 2)
What is the target share price?	105p. This is the hurdle rate of 5% applied to the NAV per share at 31 December 2010 of 100p.	123p. This is the hurdle rate of 2.5% (for the second half of the year) applied to the NAV per share at 30 June 2011 of 120p.
Has the fund beaten the target?	Yes. The final GAV per share is 110p, which is 5p per share higher than the target of 105p.	No. The final GAV per share is 13p per share lower than the target of 123p.
Is a performance fee payable?	Yes, 0.5p per share. The fund has beaten the target NAV per share for these shares. The performance fee is 10% of the excess over the target NAV per share. That is 10% of 5p or 0.5p per Lot 1 share.	No. The fund has not beaten the target NAV per share for these shares.
What is the final NAV per share?	109.6p. The total performance fee payable for the fund is £50 - 0.5p for each of the 10,000 Lot 1 shares. This represents 0.4p per share for the total 12,500 shares in issue. The final NAV per share is 109.6p – this is the final GAV per share of 110p less the performance fee of 0.4p per share. A performance fee only accrues in respect of the increase in the NAV per share of the shares within Lot 1. However, the performance fee is charged to the fund as a whole and so is borne by all shareholders on a pro rata basis even though holders of Lot 2 shares have not experienced growth in the NAV per share.	

What would be the implications for investors?

A performance fee only accrues in respect of the increase in the NAV per share of the shares within Lot 1. However, the performance fee is charged to the fund as a whole and so is borne by all shareholders on a pro rata basis even though holders of Lot 2 shares have not experienced growth in the NAV per share.

In order to determine the target share price for the next period, the hurdle rate will be applied to the final NAV per share of 109.6p. The high water mark is therefore 109.6p for the next performance period for Lot 1 shares, and remains at 120p for Lot 2 shares. The difference reflects the fact that the shares within Lot 2 were subscribed for at higher NAV per share than the shares within Lot 1. The high water marks will remain at these levels until exceeded at the end of a future performance period.

Example 3 - illustrating the impact of subscriptions during the period

In this example, shares are issued mid-way through the period. The total performance fee payable for the fund at the end of the period is calculated as the sum of the performance fees determined separately for Lot 1 and Lot 2 as illustrated below.

Assumptions

31 December 2010:

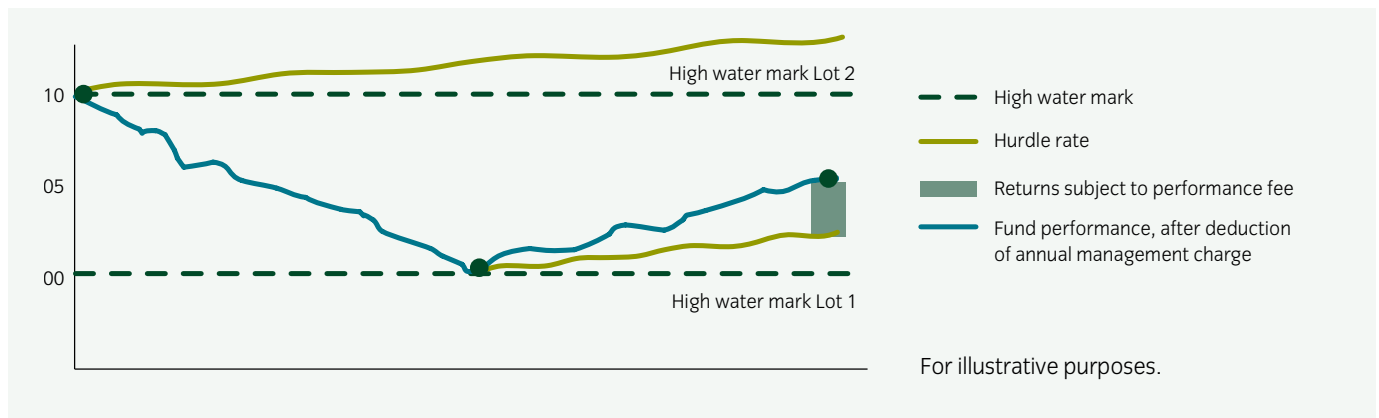
NAV per share = 110p
 10,000 shares in issue (Lot 1)
 High water mark for Lot 1 shares
 = of 110p

30 June 2011:

NAV per share has fallen to 100p
 Further 2,500 shares subscribed for
 (Lot 2) at 100p per share
 High water mark for Lot 2 shares = of 100p

31 December 2011:

GAV per share = 105p
 No redemptions during period
 Hurdle rate = 5%



Performance fee calculation

Calculation date	31 December 2011 (Lot 1)	31 December 2011 (Lot 2)
What is the target share price?	115.5p. The hurdle rate of 5% applied to the NAV per share at 31 December 2010 of 110p.	102.5p. The hurdle rate of 2.5% (for the second half of the year) applied to the NAV per share at 30 June 2011 of 100p.
Has the fund beaten the target?	No – the final GAV per share is 105p, which is 10.5p per share lower than the target of 115.5p.	Yes – the final GAV per share is 2.5p per share higher than the target of 102.5p.
Is a performance fee payable?	No - because the fund has not beaten the target NAV per share for these shares.	Yes – because the fund has beaten the target NAV per share for these shares. The performance fee is 10% of the excess over the target NAV per share. That is 10% of 2.5p or 0.25p per Lot 2 share.
What is the final NAV per share?	104.95p. The total performance fee payable for the fund is £6.25 – 0.25p for each of the 2,500 Lot 2 shares. This represents 0.05p per share for the total 12,500 shares in issue. The final NAV per share is 104.95p – this is the final GAV per share of 105p less the performance fee of 0.05p per share.	

What would be the implications for investors?

A performance fee accrues in respect of the increase in the NAV per share of the shares within Lot 2 only. However, the performance fee is charged to the fund as a whole and so is borne by all shareholders on a pro rata basis even though holders of Lot 1 shares have not experienced growth in the NAV per share.

In order to determine the target share price for the next period, the hurdle rate will be applied to the final NAV per share of 104.95p. The high water mark for the next performance period is therefore 104.95p for Lot 2 shares and remains at 110p for Lot 1 shares. The difference reflects the fact that the shares within Lot 2 were subscribed for at a lower NAV per share than the shares within Lot 1. The high water marks will remain at these levels until exceeded at the end of a future performance period.

Example 4 – illustrating the impact of redemptions during the period

In this example, shares are redeemed mid-way through the period. A performance fee calculation is carried out on the redemption date for the shares being redeemed, as if this was the end of the performance period as illustrated below.

Assumptions

31 December 2010:

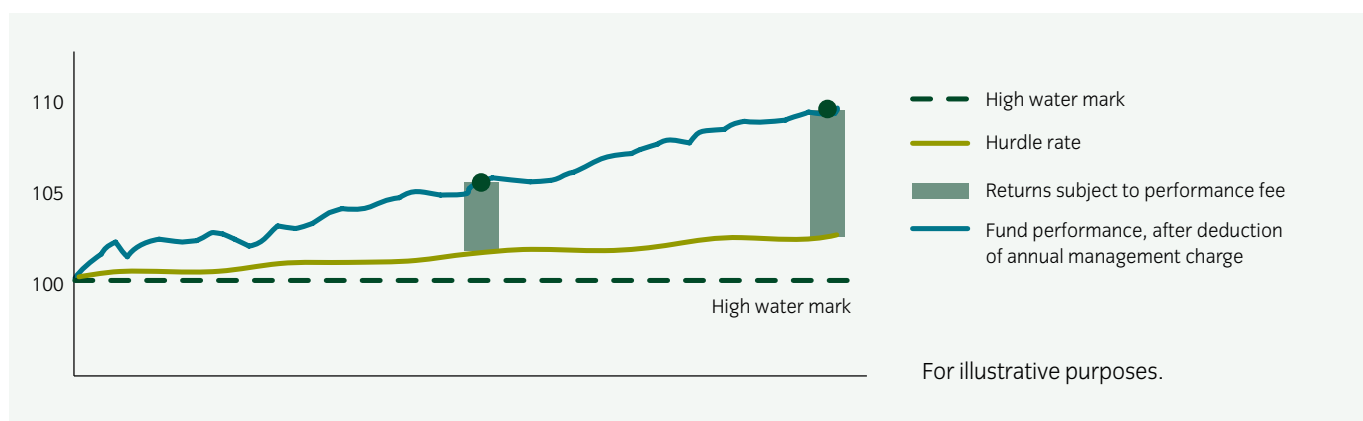
NAV per share = 100p
 10,000 shares in issue (Lot 1)
 High water mark for Lot 1 shares
 = 100p

30 June 2011:

GAV per share has risen to 105p
 2,500 shares are redeemed
 Hurdle rate = 5%

31 December 2011:

GAV per share has risen to 110p
 No subscriptions during period
 Hurdle rate = 5%



Performance fee calculation

Calculation date	30 June 2011 (redemption)	31 December 2011
What is the target share price?	102.5p. This is the hurdle rate of 2.5% (for the first half of the year) applied to the NAV per share at 31 December 2010 of 100p.	105p. This is the hurdle rate of 5% applied to the NAV per share at 31 December 2010 of 100p.
Has the fund beaten the target?	Yes. The final GAV per share is 2.5p per share higher.	Yes. The final GAV per share of 110p is 5p per share higher.
Is a performance fee payable?	Yes. The fund has beaten the target NAV per share. The performance fee is 10% of the excess over the target NAV per share. That is 10% of 2.5p or 0.25p per share. The performance fee becomes payable to the Insight for the shares being redeemed. The amount is £6.25 which is 0.25p for each of the 2,500 shares being redeemed.	Yes. The fund has beaten the target NAV per share. The performance fee is 10% of the excess over the target NAV per share. That is 10% of 5p or 0.5p per share. The total performance fee payable for the fund is £37.50 – 0.5p for each of the 7,500 remaining Lot 1 shares.
What is the final NAV per share?	104.75p. The NAV per share is 104.75p – this is the GAV per share of 105p less the performance fee of 0.25p per share.	109.5p. This is the GAV per share of 110p less the performance fee of 0.5p per share.

What would be the implications for investors?

In order to determine the target share price for the next period, the hurdle rate will be applied to the final NAV per share of 109.5p. The high water mark in respect of Lot 1 shares is therefore 109.5p for the next performance period, and will remain at this level until it is exceeded at the end of a future performance period.

Glossary

A lot

A group of shares which were subscribed for on the same day.

Performance period

The performance period runs from 1 January to 31 December each year except as noted below:

- shares issued during the year will run from the subscription date to the following 31 December.
- shares redeemed during the year will end on the redemption date of the shares.

Hurdle rate

The hurdle rate represents the performance of the benchmark over the performance period.

High water mark

The purpose of a high water mark is to ensure fund managers make up any shortfalls in performance before a performance fee is charged. In this case, the high water mark is the highest share price achieved at the end of all previous calculation periods for the specific lot.

Net Asset Value (NAV)

The market value of assets less the net present value of any liabilities.

Gross Asset Value (GAV)

The NAV per share before the accrual of performance fees.

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

www.insightinvestment.com

Telephone calls may be recorded.

Call charges may vary by provider.

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.

07935-02-11