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The Absolute Insight funds are designed to produce attractive positive returns in all market conditions and look to outperform their benchmark of cash (3 Month GBP LIBID or EURIBID, depending on whether the share class is sterling or euro). The performance fee is only paid in years where the fund manager outperforms a specific hurdle rate and the final unit price is above predetermined high water mark. This document provides a summary of the performance fee before answering more detailed questions on how it is implemented.

How does the performance fee work in summary?

An annual performance fee is paid on condition that the fund performance exceeds a specific hurdle rate and the high water mark. The performance fee is calculated as 10% of the outperformance of the hurdle rate, which is made up of two elements: the fund must outperform its benchmark over the 12 month period and its net asset value must be higher than the high water mark.

Diagram 1 outlines the process. The **hurdle rate** is reset at the start of each year and represents the performance of the **benchmark** over the 12 month period. The initial **high water mark** is the fund price at launch. Going forward, the high water mark is the highest anniversary price and reviewed on an annual basis. In the case of diagram 1, this means that the price at the end of Year 1 is the high water mark for Year 2 and Year 3. The **performance fee** is only paid in years where the fund outperforms both the benchmark and its high water mark. Thus the performance fee is only charged at the end of Years 1 and 3 in the illustration. It is not charged at the end of Year 2 because the final unit price was below the high water mark; in Year 4 the final unit price was above the high water mark but did not beat the benchmark so no performance fee is paid.

A more detailed explanation

What is the hurdle rate?

The hurdle rate is representative of the benchmark; for sterling shares it is 3-month £ LIBID, for euro shares it is 3-month EURIBID. It is the rate of cash averaged over the performance period which is a year and reset on an annual basis.

What is the high water mark?

This is the highest share price achieved at the end of all previous annual calculation periods. The high water mark ensures that if the fund performance is negative during a particular year, the fund must make up this shortfall in the next or later years before Insight is paid a performance fee again.

When is the performance fee paid?

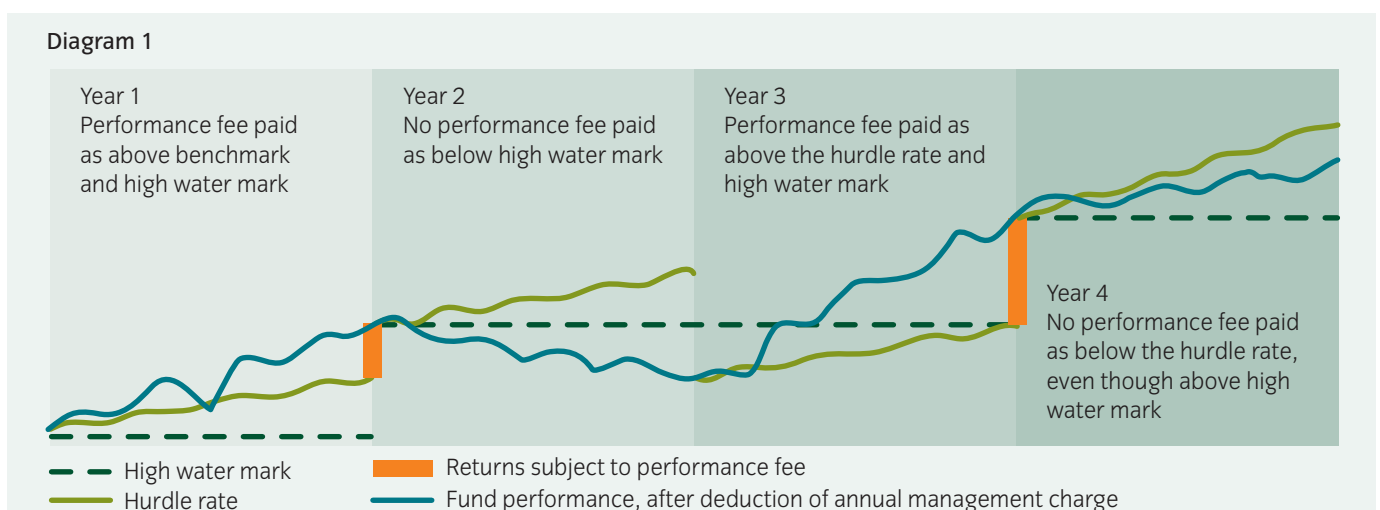
The fund pays the performance fee to Insight once a year on the 31 January, one month after the end of the annual calculation period which is January to December.

When is the fee calculated?

The fee is calculated on a daily basis, as if that day was the end of the annual period. The potential fee 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. This means the performance fee is reflected in the share price of the fund on a daily basis.

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 on condition that Insight has earned the performance fee at the end of the whole 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 jump in the share price.



What happens if performance exceeds the hurdle rate during the first part of the year, but then tails off, so that over the year as a whole, performance falls short of the hurdle rate?

Insight will not receive a performance fee as the fund performance calculated over the whole year is not sufficiently high.

In the first part of the year, the strong performance would lead to the build up of a performance fee accrual in the share price. During the second part of the year the accrual would be gradually reduced, falling to zero by the end of the year. Diagram 2 displays further information on how the performance fee accrual affects clients who hold buy and sell shares during the year.

How is the fee calculated?

For a particular calculation period, the performance fee is calculated as:



The target share price is identified as the greater of the high water mark or the share price at the start of the calculation period as increased by the hurdle rate.

For example if, after the deduction of the annual management fee, the share price at the start of the year was £2 x hurdle rate (the return from LIBID/EURIBID) of 3% = target share price of £2.06

How is LIBID/EURIBID calculated?

The British Bankers' Association publishes a rate for 3-month LIBOR on a daily basis. 3-month LIBID is taken to be this rate minus 0.125%.

Similarly, the European Banking Federation publishes a rate for 3-month EURIBOR on a daily basis. 3-month EURIBID is taken to be this rate minus 0.1%.

The daily published rates are used in the daily performance fee calculation.

The daily published rates are averaged over the period in order to calculate LIBID/EURIBID for that period.

What happens if I buy and sell my units within a year?

The daily accrual mechanism provides a straightforward method for allocating the cost of the annual performance fee to investors which buy, sell and hold units throughout the calculation period. It has the advantage of being easy to convey to investors and is simple to implement for a daily priced fund.

Alternative methods of calculating performance fees are available which more precisely attribute performance fees between investors in the fund, but these are complex to carry out daily and therefore not appropriate for daily priced funds with many investors.

Diagram 2

Clients selling shares during the year	The sales proceeds are reduced by the amount of the performance fee accrual which is reflected in the daily NAV of the fund. The difference is retained within the fund for benefit of remaining investors.
Clients buying shares during the year	The purchase price will be reduced by the amount of the performance fee accrual which is reflected in the daily NAV of the fund. This shortfall is borne by the fund and therefore suffered by existing investors.
Clients owning shares throughout the year	In years where the performance fee is paid, these clients benefit where other investors sell shares during the year, but are worse off where other investors buy units.

It should be noted that in most cases, the effect on the remaining fund of investors buying and selling units during the year will largely net off and it is likely that the residual impact will be immaterial. In extreme circumstances, however, it is possible that some investors could benefit at the expense of others.

Does the performance fee apply to all share classes?

No. The fee is calculated separately for each individual share class within the fund and only applies to the following share classes: Ap, B1p, B2p, B3p, B4p and Sp.

Find out more

If you have any additional questions you would like answered, please do not hesitate to contact your usual representative or email us on brokersupport@bnymellon.com.