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FUND PROFILE
SECURED FINANCE

OPPORTUNITY

Long-term investors are increasingly filling the space left by banks who continue to rebuild their balance sheets and scale-back their lending activities. We believe attractive returns are available to investors that can access private direct lending and related opportunities.

We believe the risk and return trade-off in the secured finance arena is compelling. These investment opportunities typically involve lending that is secured against a portfolio of physical assets providing investors with tangible security.

Enhanced yields are available relative to, for example, investment grade corporate bonds (Figure 1). In our view, the approximate 2.3% yield premium for investment grade secured finance assets is primarily a 'complexity premium' associated with sourcing, researching and investing in private debt, one component of secured finance. It is not a reflection of additional credit default risk. Indeed, compared to unsecured investment grade bonds, we believe high quality secured finance investments are likely to provide significantly higher levels of structural safeguards such as covenants and security.

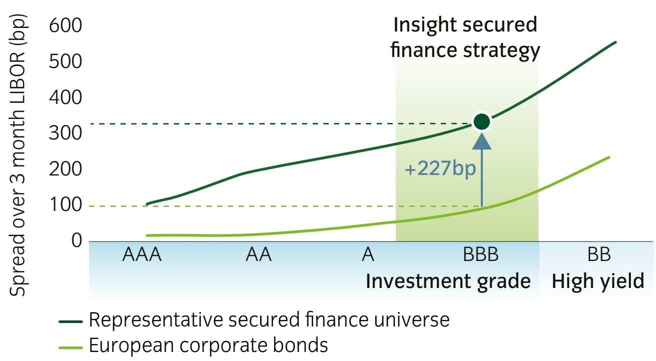
Secured finance provides an attractive high credit quality alternative to multi-asset credit and leveraged credit which are historically volatile asset classes, subject to drawdowns and credit defaults. Using Insight's LIBOR Plus Fund – managed by the same team that manages our Secured Finance Fund – for comparison purposes, we find a low correlation to multi-asset credit and absolute return bond funds.[1]

For many investors, including pension funds, secured finance investments can provide a valuable bridge between the investor's return-seeking assets and their liability matching portfolios. Investments with contractual cash flows provide control and certainty over the timing of returns. The predictable nature of the return stream from these investments can help long-term investors avoid inopportune selling-down of return-seeking assets to meet short-term cash flow needs.

In secured finance, Insight offers investors the following:

- The benefit of specialist skills and experience in sourcing, researching and investing in secured finance opportunities to exploit the 'complexity premium'
- Portfolios that aim to capture the yield premium over investment grade corporate bonds with equivalent risk ratings, with a focus on high quality, low risk opportunities
- A rigorous approach to risk management including control over lending risk, loan structure and security package
- Assets providing a floating rate which, unlike fixed rate bonds, may help mitigate the price impact of rising interest rates
- A broad and evolving opportunity set of private market opportunities, not available to many investors, which Insight can exploit for clients either on a pooled fund or a segregated basis
- The ability, through segregated portfolios, to tailor the return stream to meet client-specific needs and, if required, for the portfolio to be managed on a buy-and-hold-to-maturity basis
- Access to a wide opportunity set with Insight managing reinvestment of cash flows from the underlying investments, and with access to some liquidity on a quarterly basis

Figure 1: Spreads available on secured finance assets[2]



SECURED FINANCE SNAPSHOT

A wide range of investment opportunities exist including those backed by the following collateral types. Each asset class can be accessed through a public market or a private market.

	Public	Private
Residential and consumer	Prime residentials mortgages, MI/MSR RMBS, Consumer ABS	Mortgage pools, Bridging finance, Auto/credit card pools
Commercial	Commercial mortgage securities, CRE CLOs, NPL portfolios	CRE loans, Multifamily, Aircraft
Secured corporates	CLO's, whole business securitisations, EETC	Corporate loan warehouse, SME pools, Trade Finance

[1] Source: Bloomberg, Insight. Correlation analysis from 31 March 2011 (common date) through 30 September 2019. LIBOR Plus is a strategy managed by Insight investing in public asset-backed securities markets with a longer track record dating back to March 2011.
[2] Source: Insight as at 30 September 2019. The spreads shown are for illustrative purposes only and are not indicative of the strategy spread.

WHY SECURED FINANCE?

Investors typically seek an enhanced return from credit by lowering credit quality, increasing duration, moving into deeply illiquid areas of the market or applying portfolio leverage. However, Insight believes that investors should consider strategies, such as secured finance, focused on extracting complexity and some illiquidity risk within a robust asset allocation framework. Secured finance markets can offer a compelling opportunity for investors who want to generate excess returns while preserving credit quality, and remaining relatively liquid and unlevered.

With the balance sheets of EU banks equal to four times eurozone GDP, the opportunity in secured finance is increasing as banks continue to face pressures to scale back their lending activities and boost capital held in liquid instruments such as government bonds. Insight anticipates that regulation will continue to drive the evolution of capital markets and that is creating a structural investment opportunity for non-bank lending strategies such as secured finance.

There are, however, barriers to market entry that will restrict the amount of capital that will flow into secured finance markets from traditional fixed income investors. For example, many investors are restricted by benchmarks, style biases, liquidity and resource constraints from considering opportunities outside of the bond markets.

A premium is available from secured finance that is associated with the complexity of the underlying assets. Assessing risk and opportunity in secured finance requires a specific skill-set and an understanding of:

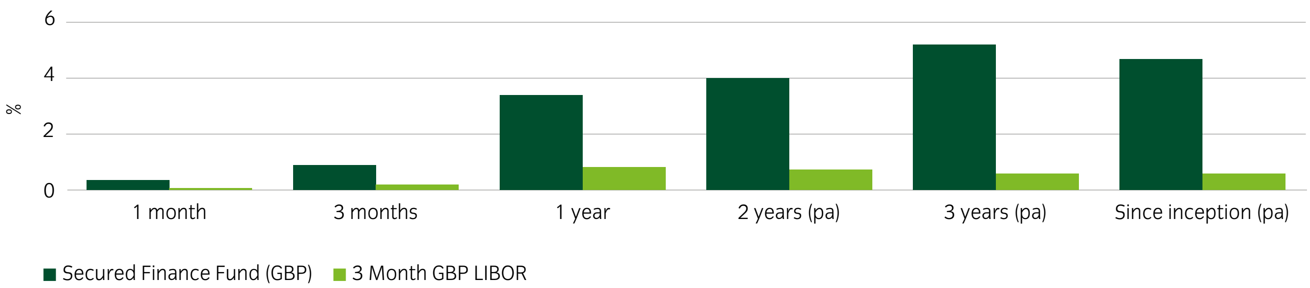
- Type and quality of the underlying assets
- Seniority of the credit risk and legal documentation
- Nature of any credit enhancements
- Prepayment risk
- Liquidity and mark-to-market risks

Insight offers access to secured finance opportunities, both directly and through multi-client pooled vehicles. The Secured Finance Fund is an example of one of these pooled vehicles.

SECURED FINANCE FUND – KEY FACTS

Fund launch date: 27 November 2015
Long-term target: 4% pa over 3-month GBP LIBOR (gross of fees and expenses) over rolling three-year periods
Current spread: Annual yield spread over LIBOR of +374bp[5]
Investments: Secured finance opportunities which are senior in the capital structure and backed by portfolios of real assets. Currency and interest rate risk are hedged to low tolerances.
Credit quality: Investment grade (weighted average credit quality of BBB+). Maximum of 15% in sub investment grade rated assets
Liquidity: Quarterly (four month notice period for redemptions)

PERFORMANCE[3]



[3] Source: Insight as at 30 September 2019. Returns data is gross of fees and in GBP.
[4] Inception 27 November 2015.
[5] Source: Insight as at 30 September 2019.

THE TEAM

- The Secured Finance Team is a specialist team of investment professionals overseeing £19.5bn of secured lending across residential mortgages, supply chain finance, commercial real estate loans, corporate loans, ABS and CLOs. Led by Shaheer Guirguis, the team has complementary experience of secured finance transactions across market segments, transaction stage (e.g. origination, underwriting, valuation, structuring and modelling) and portfolio management.
- The Secured Finance Team is supported by the skills and capabilities of Insight's Fixed Income Group, of which the Team is a part. The Fixed Income Group numbers 116 investment professionals, together managing £145.3bn of fixed income and money market assets. Within the Group, investment professionals' average industry experience is 17 years.
- Insight's Fixed Income Group is built on specialist knowledge, experience and organised into specialist units, which enables us to maintain the diversity and precision which lies at the heart of our investment philosophy and long-term track record.

As at 30 September 2019.

INVESTMENT STRATEGY

The Fund's investment strategy currently seeks to allocate between the following attractive opportunities.

Public investments c.80%

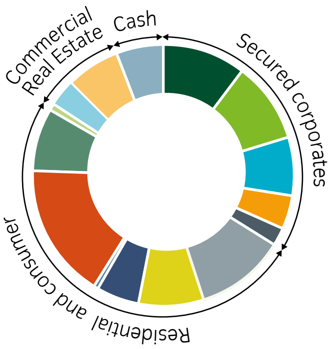
- Asset backed securities and CLOs: valuations attractive on assets that have a strong fundamental outlook; exceptionally low historical default track record

Private investments c.20%

- Residential and consumer financing: strong historical performance across credit cycles; full recourse lending against granular pools of assets
- Commercial real estate (CRE) loans: backed by high quality real estate with conservative income profiles and loan structures; lending at bottom of the cycle loan-to-values (LTV) to best of breed sponsors
- CLO and SME warehouses, diversified, short-dated, high-grade supply chain/trade finance paper

The information below shows the types of assets and their weightings within the Secured Finance Fund. Insight's active asset allocation model guides portfolio construction.

Figure 3: By asset type



Leveraged Loan CLOs	10.5%
Small and medium-sized enterprise CLOs	10.0%
Whole business securitisation	7.1%
Trade finance	4.2%
SME finance	2.4%
Residential mortgage-backed securities	11.1%
Consumer finance	7.9%
Auto finance	5.4%
Aircraft finance	0.5%
Non-performing loan finance	16.5%
Residential finance	8.0%
Credit card financing	0.8%
Commercial real estate loan	3.4%
Commercial mortgage-backed securities	6.6%
Cash	5.6%

Figure 4: By rating

AAA	6.3%
AA	6.6%
A	13.3%
BBB	65.6%
BB	8.1%

Figure 5: By geography

UK	28.3%
US	23.7%
Australia	12.1%
Pan-Europe	10.5%
Ireland	5.4%
Italy	5.3%
Spain	2.9%
Greece	2.4%
Croatia	1.2%
Global	0.6%
Sweden	0.6%
Finland	0.6%
Netherlands	0.5%
Portugal	0.3%
Germany	0.1%
Cash	5.6%

Figure 6: By maturity (years)

< 0.5	7.2%
<1	11.7%
<1.5	7.6%
<2	8.7%
<3	17.4%
<4	13.8%
<5	8.6%
>=5	25.1%

Source: Insight as at 30 September 2019. Investment and exposure values vary as markets move.

ABOUT INSIGHT INVESTMENT

- Insight has, over the past 15 years, built a unique investment platform that delivers outcome-oriented investment solutions to our clients. We currently manage £714bn in assets under management (AUM).
- Our clients are among the most sophisticated institutional investors in the world and include leading pension funds, sovereign wealth funds, corporations and insurers.
- We build portfolios aimed at an outcome, in partnership with clients. Our investment strategies are designed to evolve to meet changing needs and stay ahead of market developments.
- We were among the first asset managers to bring institutional-quality processes and transparency to absolute return investing.
- Insight is at the forefront of developing new ways of investing, providing institutional investors with access to innovative investment strategies, coupled with robust risk management techniques. We were a pioneer in recognising the unrewarded nature of currency risk and the importance of liabilities. Liability-driven investment (LDI) has been a significant contributor to protecting funding levels for pension funds over the past decade.

As at 30 September 2019. AUM are represented by the value of cash securities and other economic exposure managed for clients. Reflects the AUM of Insight, the corporate brand for certain companies operated by Insight Investment Management Limited (IIML). Insight includes, among others, Insight Investment Management (Global) Limited (IIMG), Insight Investment International Limited (IIIL) and Insight North America LLC (INA), each of which provides asset management services.

FUND DETAILS

Investment objective	The investment objective is to seek to produce an annual interest based return
Benchmark	3 month GBP LIBOR (EURIBOR for any Euro share classes)
Performance target	The Fund aims to produce an annualised return, before fees and expenses, of 4% above the return provided by the Fund's benchmark over a rolling three year period
Fund investments	The Fund will seek to achieve its investment objective mainly through investment in a portfolio of public and private debt backed by three primary types of collateral: residential and consumer, commercial real estate and secured corporates
Fund managers	Alex Veroude and Shaheer Guirguis
Scheme type	Qualifying Investor Alternative Investment Fund (QIAIF). This is an open-ended fund with limited liquidity
Domicile	Ireland
Registration	Austria, Denmark, Finland, Germany, Ireland, Netherlands, Norway, Sweden, Switzerland, UK
Base currency	GBP
Share classes	GBP, EUR, CHF
Fees	Share class B: 0.50% pa
Minimum investments	Share class B: • Minimum initial subscription, 1 million GBP/EUR • Minimum additional subscription and holding, 1 million GBP/EUR
Dealing frequency	For subscriptions, last Business Day (London) of each calendar month For redemptions, last Business Day (London) of each calendar quarter
Settlement period	Subscriptions: T+4 days Redemptions: T+15 days
Notice period	Subscriptions: fifth business day prior to relevant dealing day Redemptions: first business day of the third month preceding the relevant dealing day

Note: Potential investors should understand that this fund provides quarterly redemptions subject to the relevant notice periods per share class. Fund directors may restrict redemptions at any level they deem appropriate to protect the interests of remaining shareholders. Potential investors should have a low sensitivity to changing market conditions and be willing to set aside capital for at least five years.

IMPORTANT INFORMATION

RISK DISCLOSURES

Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees and charges and these can have a material detrimental effect on the performance of an investment.

Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. Strategies which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Portfolio holdings are subject to change, for information only and are not investment recommendations.

ASSOCIATED INVESTMENT RISKS

Secured Finance Fund

A credit default swap (CDS) provides a measure of protection against defaults of debt issuers but there is no assurance their use will be effective or will have the desired result.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

Where leverage is used as part of the management of the portfolio through the use of swaps and other derivative instruments, this can increase the overall volatility. While leverage presents opportunities for increasing total returns, it has the effect of potentially increasing losses as well. Any event that adversely affects the value of an investment would be magnified to the extent that leverage is employed by the portfolio. Any losses would therefore be greater than if leverage were not employed.

The specific collateral used to secure a loan may decline in value or become illiquid, which would adversely affect the loan's value. Also, many loans are not actively traded, which may impair the ability of the portfolio to realise full value in the event of the need to liquidate such assets.

Property assets are inherently less liquid and more difficult to sell than other assets. The valuation of physical property is a matter of the valuer's judgement rather than fact.

FIND OUT MORE

Institutional Business Development
businessdevelopment@insightinvestment.com
+44 20 7321 1552

European Business Development
europe@insightinvestment.com
+49 69 12014 2650
+44 20 7321 1928

Consultant Relationship Management
consultantrelations@insightinvestment.com
+44 20 7321 1023

@InsightInvestIM

company/insight-investment

www.insightinvestment.com

VOLCKER DISCLOSURES

The fund described in this document meets the definition of a covered fund under Volcker regulations, that is, a domestic or foreign hedge fund, private equity fund, venture capital fund, commodity pool or alternative investment fund (AIF) that is sold in a private, restricted or unregistered offering to investors who must meet certain net worth, income or sophistication standards or is sold to a restricted number of investors. Generally, any such fund is not registered with a securities/commodity regulator and therefore cannot be offered to the general or retail public unless the investor meets some type of qualification to demonstrate the investor doesn't need the protection of the securities or commodities regulations.

- Any losses in the fund will be borne solely by investors in the fund and not by BNY Mellon (including its affiliates); therefore BNY Mellon's losses in the fund will be limited to losses attributable to the ownership interests in the fund held by BNY Mellon and any affiliate in its capacity as an investor in the fund or as beneficiary of a restricted profit interest held by BNY Mellon or any affiliate.
- Ownership interests in the fund are not insured by the FDIC, are not deposits, obligations of, or endorsed or guaranteed in any way, by BNY Mellon. Neither BNY Mellon nor any of its controlled affiliates (which includes the fund's general manager/ managing partner/ investment adviser), may directly or indirectly, guarantee, assume, or otherwise insure the obligations or performance of the fund or of any other covered fund in which the fund invests.
- Investors should read the fund's offering documents before investing in the fund. Information about the role of BNY Mellon, its controlled affiliates, and their employees in sponsoring or providing services to the fund are described in the Volcker Rule section of the offering documents.

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