

INSIGHT BROAD OPPORTUNITIES FUND

MARKET BACKDROP

Cyclical assets posted strong returns over the first quarter. The European Central Bank's (ECB) provision of liquidity, in late 2011 and again in February 2012, removed some of the immediate funding risks for the region's banks and helped improve sentiment despite on-going concerns surrounding the periphery. This in turn allowed focus to shift to macroeconomic data which generally pointed to a broad-based improvement, most notably in the US although European data was also better than initial forecasts. The much-anticipated Greek debt restructuring passed in early March without much commotion but stresses within the periphery began to rebuild towards the end of the quarter. Growth concerns in the emerging world (centred around China) also began to resurface in March triggering some weakness in emerging currencies and causing cyclical assets to give back some of their gains. Equities rallied strongly over the first two months of the year, albeit on low volumes, with the world index recording its best quarterly return since the second quarter of 2009. Credit and commodities fared well, alongside emerging market equities. Emerging market debt had a more difficult time, due in part to a sell-off in key safe haven assets, including US treasuries where the yield curve steepened reflecting an improving growth environment.

Against this backdrop our performance over the quarter was +3.46% which left the Fund with an annualised run-rate of 6.53% since its inception in September 2009. We were active over the quarter, with the general aim of adding cyclicity and (temporarily) removing our bias away from European risk assets. The strong trend in risk appetite and subsequent fall in volatility made it a less positive environment for opportunistic investment ideas which tend to rely on market deviations, however, we remained successful in drawing out positive contributions from all the main investment categories. Importantly, we believe that the Fund is well positioned to deliver positive performance going forward.

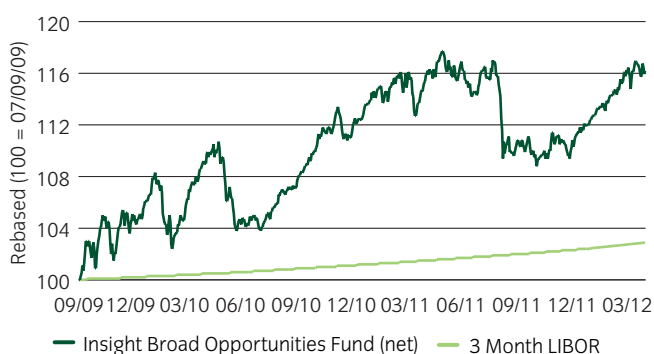
Asset class review and portfolio activity

Bonds

The commitment of the world's major central banks to ensure ample liquidity provision for short-term funding kept the front end of yield curves anchored towards historic lows with no material interest rate tightening priced-in for the year ahead. Longer-term yields rose, most aggressively in the US (followed by the UK) as improving growth data served to undermine former safe-haven investments. Sovereign trends in mainland Europe were more divergent and most pronounced within the periphery. Meanwhile, improving macroeconomic fundamentals provided greater support for credit.

Fund performance

Chart 1: Performance versus benchmark since inception



Source: Insight Investment. Performance is shown net of 50 bps AMC and in GBP. Benchmark: 3 month GBP LIBID. Inception date 7 September 2009.

We were active early in the quarter, lowering our exposure to both government bonds and shorter maturity credit such that our fixed income holdings were halved during the period under review. We retained exposure to the more cyclically-biased corporate holdings and added some additional high yield exposure. Overall, our fixed income holdings proved to be a small positive contributor of performance over the quarter.

Total return

Absolute return strategies are an important diversifier when considered in a portfolio context. We search for products that offer attractive returns independent of market direction. In early February we added a volatility based strategy designed to produce attractive total returns in most market environments but with an emphasis on providing protection should risk assets become unsteady. Over the period, performance at the asset

class level was positive with notable contributions from Insight's Absolute Credit and Emerging Market Debt funds.

Equities

After the volatility of recent quarters, equities were able to make substantial gains during a period of relative calm in Europe and optimism regarding global growth prospects. A commitment from the major central banks to keep official interest rates at historic lows for an extended period of time, irrespective of improving macroeconomic data, provided a powerful stimulus early in the year. Emerging markets and those indices and sectors, such as financials, which had been the weakest performers in 2011 rebounded strongly (in part because many investors were heavily underweight). This positive trend continued into February, supported by economic data that was generally better than expected. Cyclical laggards, such as Japan, picked-up on this theme later, buoyed by hope of additional policy stimulus. By the latter half of March, fears of economic weakness in China and the revaluation of stresses in mainland Europe once again gained precedence, negatively impacting the associated stock markets, initially without significant contagion to other markets.

Of all our return-seeking categories, it was the equity allocation that saw the largest increase in position size as we aimed to capture some of the upswing in economic momentum. We used small market pull-backs as entry opportunities and were alert to when option-based exposure provided an improved return profile. We also skewed our investments to take advantage of markets with specific drivers, either in outright positions for example in Japan, or in relative value terms. For most of last year we had little or no exposure to European equities but removed this bias at the start of the year, only to reintroduce it towards the end of the quarter. We discuss this in more detail later. Over the quarter, our equity holdings were the largest single contributor to performance, generating over 50% of the portfolio's total return.

Real assets

Our real asset exposure is split between commodities, infrastructure and property holdings and offers a hedge against potential inflation spikes whilst representing an alternative source of performance. Our assessment of the cyclical environment led us to add some commodity exposure back into the portfolio during the quarter. The re-emergence of political tensions in the Middle-East was an additional catalyst in this decision.

We maintained our exposures to UK property in derivative form, due to its more favourable volatility and liquidity characteristics relative to physical assets, and our holdings were stable over the quarter. Yields remain attractive and offer value in the medium term. Infrastructure investments remain an important element within the portfolio, offering a high degree of inflation protection, strong income streams and the prospect of capital appreciation. Opportunities to expand investments in this

area are relatively scarce and we continue to participate in discounted share offerings from existing holdings.

Over the period under review our real asset holdings delivered steady gains and added to overall portfolio performance. Infrastructure holdings made the most significant contribution.

Opportunistic investments

Our wide investment remit allows us to take advantage of perceived market dislocations or mis-pricings, within the broadest opportunity set, under many different market conditions. This allows for more interesting diversification opportunities, from traditional asset classes, when viewed in a portfolio context. At an overall level, the opportunistic trades provided another important contribution to the Fund's total return.

The lower volatility environment experienced over this quarter meant that a number of income-generating themes that we have successfully employed previously, became less attractive. Existing exposure was broadly lowered to lock-in profit whilst the appetite for building new strategies was relatively muted.

Our focus instead switched to relative trades where we aim to capture divergences in market trends. Our strong investment bias for the US economy to outperform Europe is implemented through equity and currency markets, although we temporarily stepped away from these trades in January when positioning and sentiment data suggested the strategy had become too crowded. During the quarter we also had a thematic preference for emerging markets to outperform developed markets. This view was implemented through a diverse set of market investments. Towards the end of March we opened another relative trade, through exchange traded futures, to benefit from the Chinese economic slowdown.

Elsewhere, our preference for dividend futures, which reflect actual company dividends (and represent the most stable part of the equity total return stream) continued to perform well and as new opportunities presented themselves we adjusted exposure, in terms of region and maturity, to extract the most from perceived mis-pricings.

Outlook

Despite an improvement in the global macroeconomic backdrop, most notably in the US, being a key feature to the start of the year a number of investment hurdles have re-emerged and these may hamper a return to trend levels of growth.

Firstly, whilst activity in the US has picked up in recent months, progress remains fragile and in each of the last two years early signs of recovery have not proved sustainable as the year has progressed. Secondly, the tentative signs of improvement that we see in the US contrast sharply with continued weakness, most obviously in mainland Europe.

Fiscal deficits continue to put European peripheral nations under acute pressure and the austerity measures viewed as prerequisites to return debt ratios to sustainable levels, make the growth outlook particularly challenging. In addition, the periodic spikes in stress associated with the sovereign debt crisis bring with them the risk of financial contagion, with all the negative consequences that implies.

Finally, fragility is not limited to continental Europe with a number of key emerging economies, most importantly China, seeing a slowdown in the pace of growth and while the authorities are attempting to engineer a 'controlled' moderation in activity this result is not yet assured.

The pace of market gains in the first quarter, supported by the cyclical backdrop and ample central bank liquidity, make risk assets vulnerable to bouts of profit taking. Divergent economic trends are likely to become more apparent in the coming months and should provide a range of tactical opportunities across the investment universe. A core investment theme in the coming months is likely to centre on the prospect of self-sustaining US economic growth versus a number of European nations which are already tipping back into recession.

We start the second quarter with a well balanced degree of cyclicity embedded into the portfolio combined with a wide range of opportunistic and real asset positions which are less sensitive to simple market direction. Our outlook suggests that markets will be punctuated with periodic bouts of volatility, in response to unresolved issues creating pockets of risk aversion, and this should provide for interesting tactical opportunities. Our dynamic approach to investing allows for swift changes in cyclical exposures, limiting capital drawdown whilst allowing upside participation.

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