

# INTERIM SHORT REPORT

30 JUNE 2013

BNY MELLON MANAGED FUNDS II



BNY MELLON



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# REPORT OF THE AUTHORISED CORPORATE DIRECTOR

This is the interim report for the BNY Mellon Managed Funds II (“the Company”), and the first Sub-Fund – Absolute Insight Fund (“the Fund”) – for the period from 31 December 2012 to 30 June 2013. This is the Short Report.

The six months to the end of June 2013 was a period of significant strength in global equity (company share) markets. In the face of considerable economic and market headwinds, in the eurozone in particular, investors and financial markets alike seemed prepared to shrug off events that, less than a year ago, would have resulted in widespread panic.

From the political stalemate in Italy following the country’s inconclusive elections in February, to the unprecedented partly depositor-funded financial bail-out for Cyprus, and the uncertainty with regards to the US ‘fiscal cliff’ (a series of tax rises and spending cuts that were due to come into force at the turn of the year); these events barely made a ripple in financial markets. However, this is not to say that the post-credit crisis world is back to good health.

Much of the developed world remains reliant upon expansive quantitative easing programmes (the printing of more money) as a means of maintaining the flow of money through the financial system. Unprecedented in scale, there is no certainty as to the ultimate outcome of such policy, although higher inflation (the rate at which the prices of goods and services rise) seems a distinct possibility. For some, though, this is unlikely to be a problem. For example, the Japanese prime minister, Shinzo Abe, announced a vast quantitative easing programme, dubbed ‘Abenomics’, that aims to drag Japan from its deflationary cycle (the opposite of inflation, deflation is a general decline in the prices of goods and services in an economy).

Across the Atlantic there is a greater sense of optimism with regards to expectations of a sustainable economic recovery. The US housing market, viewed by many to have been central to the 2008 credit crisis, finally seems to be recovering, while unemployment is gently falling (although not as rapidly as first hoped). But unlike its counterparts in the UK and Europe, the US government has not embarked upon large-scale debt reduction. Global equity markets were hit in late May as the chairman of the US Federal Reserve (Fed), Ben Bernanke, stated that the Fed’s quantitative easing programme would be wound down as and when economic improvements permit; this is widely expected to happen towards the end of this year.

Meanwhile, in Asia, Japanese markets have been buoyed by the early success of ‘Abenomics’, while China’s new leadership is busy re-focusing its economic policy towards domestic growth and consumption and away from a reliance on exports. However, fears of weakening Chinese economic data continue to weigh on financial markets.

In fixed income (debt issued by governments and companies), small positive returns came from riskier areas such as high yield corporate bonds (debt issued by companies which are rated BBB and below by the credit rating agency Standard and Poor’s). These outperformed those global government bonds (debt issued by governments) which are perceived as being relative ‘safe havens’, such as bonds issued by the UK, US and Germany, which ended the period in negative territory.

Against this backdrop, almost all of the underlying funds held in the Absolute Insight Fund enjoyed a positive six months. Looking ahead, while there are early signs of a sustained global economic recovery, risks remain. Indeed, there are challenges facing both the developed and developing worlds, whether it is large-scale debt reduction or a change of economic focus. Such an environment can lead to financial market fluctuations and uncertainty. However, such conditions can also create investment opportunities. We believe Insight is well placed to take advantage of those opportunities as and when they arise.

**David Turnbull**

**Director**

**For and on behalf of BNY Mellon Fund Managers Limited  
Authorised Corporate Director**

**22 August 2013**

# MARKET BACKGROUND

## **MARKET REVIEW**

The six months to the end of June 2013 was a period of significant strength in global equity (company share) markets. In the face of considerable economic and market headwinds, in the eurozone in particular, investors and financial markets alike seemed prepared to shrug off events that, less than a year ago, would have resulted in widespread panic. In fixed income (debt issued by governments and companies), small positive returns came from riskier areas such as high yield corporate bonds (debt issued by companies which are rated BBB and below by the credit rating agency Standard and Poor's). These outperformed those global government bonds (debt issued by governments) which are perceived as being relative 'safe havens', such as bonds issued by the UK, US and Germany, which ended the period in negative territory.

# SUB FUND REPORT

## GENERAL INFORMATION

Fund management team:	Sonja Uys & Reza Vishkai
Fund size:	£518,774,595
Fund launch:	27 February 2007
Sector:	Targeted Absolute Return

## ACCOUNTING DATES:

Interim	30 June
Final	31 December

## DISTRIBUTION DATES:

Interim	31 August
Final	28 February

## INVESTMENT OBJECTIVE

The investment objective of the Sub-Fund is to deliver attractive, positive absolute returns in all market conditions.

## INVESTMENT POLICY

The Sub-Fund will seek to achieve its objective by investing primarily in shares of the range of Sub-Funds within Absolute Insight Funds p.l.c., an Irish umbrella UCITS investment company the assets of which are also managed by the Investment Manager. These Sub-Funds are absolute return funds which follow a number of different strategies. The ACD will typically conduct a monthly review and rebalance of the allocation of capital to each strategy. The Sub-Fund may also invest, to the extent permitted by the Regulations, in ancillary liquid assets (including units in collective investment schemes), permitted money market instruments and, from time to time, cash or near cash may be held.

## RISK PROFILE

The nature of the company's investment in the Underlying Funds involves certain risks and the Underlying Funds will utilise investment techniques (such as the use of derivatives) which may carry additional risks. There can be no assurance that the investment objective of the Sub Fund or the investment objectives of any Underlying Fund will be achieved and investment results may vary substantially over time. The Sub Fund will invest predominantly in the Underlying Funds and as such will be a 'fund of funds'. Accordingly many if not all of the risks attributable to an investment in the Underlying Funds will be relevant to an investment in the Sub Fund.

## PERFORMANCE REVIEW

The Absolute Insight Fund outperformed its benchmark over the six months. Four out of the five underlying strategies contributed positively to returns over the quarter. The currency strategy drove performance, due largely to a short position in the Japanese yen, held primarily against the US dollar. The credit strategy also performed well driven by long positions in asset-backed securities, and it reduced risk exposure, helping to maintain performance despite the market correction. The equity strategies contributed positive returns as they continued to benefit from good stock selection. The emerging market debt strategy detracted marginally from performance. Positions in external government bonds detracted from performance in the first quarter, and returns were negative in June as markets declined sharply, although the strategy outperformed mainstream indices.

## ACTIVITY REVIEW

The currency strategy increased risk in the first quarter but then took a tactical approach, reducing the short yen position in May before increasing the position as the yen strengthened in June. This boosted performance. The credit strategy reduced net exposure to the market over the six months: by the end of May the portfolio was positioned to be roughly neutral to strong directional market moves, which helped to maintain positive performance. The equity strategies initially took profits on successful trades, aiming to mitigate the impact of any rise in market instability, but the June correction provided opportunities to add to some lead positions. The emerging market debt strategy reduced net exposure to the market over the first quarter. It increased exposure in April in response to continued liquidity from central banks and a European interest rate cut, but reversed this after uncertainty over the future of US quantitative easing, before slightly increasing exposure again in June.

## INVESTMENT OUTLOOK

Divergent trends complicate the global economic environment. US economic data is broadly positive, but US manufacturing declined in May for the first time in several years. Manufacturing in Europe and Asia also remains weak. Discussion focuses on the US Federal Reserve's attitude to tightening monetary policy.

We believe the approach taken by the Absolute Insight Fund and the low correlation between the underlying strategies should continue to create a solution well-placed to deliver attractive returns with low volatility, regardless of the future direction of markets.

# STATISTICS

## Synthetic Risk Reward Indicator

	ISIN	Launch Date	1	2	3	4	5	6	7
<b>Absolute Insight</b>									
A (Accumulation)	GB00B1SVX910	11/07/2008							
Ap (Accumulation)	GB00B5MF4S35	02/07/2010							
Fp (Accumulation)	GB00B15VX803	28/02/2007							
Sp (Accumulation)	GB00B3K5ZB07	28/03/2013							
W (Accumulation)	GB00B89QJK70	11/02/2013							

We have calculated the risk and reward category, as shown to the left, using a method of calculation derived from EU rules. It is based on the rate at which the value of the Fund has moved up and down in the past (i.e. volatility) and is not a guide to the future risk and reward category of the Fund. The category shown is not a target or guarantee and may shift over time. Even the lowest category 1 does not mean a risk-free investment.

Funds in category 3 have in the past shown moderate low volatility. With a fund of category 3, you have a moderately low risk of losing money but your chance for gains is also moderately low.

For further information on the risks that may not be fully captured by the risk and reward indicator, please refer to the current Key Investor Information Document (KIID).

## Statutory Performance Data

From	30/6/2012	30/6/2011	30/6/2010	30/6/2009	30/6/2008
To	30/6/2013	30/6/2012	30/6/2011	30/6/2010	30/6/2009
A (Accumulation)	5.98	(0.50)	7.99	10.31	N/A
Ap (Accumulation)	5.55	(0.48)	N/A	N/A	N/A
Fp (Accumulation)	5.91	(0.02)	7.88	9.97	1.84
Sp (Accumulation)	N/A	N/A	N/A	N/A	N/A
W (Accumulation)	N/A	N/A	N/A	N/A	N/A

Source: Lipper as at 30 June 2013 - total return including revenue net of UK tax and annual charges, but excluding initial charge. All figures are in sterling terms. The impact of the initial charge, which may be up to 4% (7% in the case of some Exempt Classes), can be material on the performance of your investment. Performance figures including the initial charge are available upon request.

Past performance is not a guide to future performance. The value of investments and the revenue from them is not guaranteed and can fall as well as rise due to stock market and currency movements. When you sell your investment you may get back less than you originally invested.

Ongoing Charges %	30/6/2013	31/12/2012
A (Accumulation)	1.86	1.97
Ap (Accumulation)	1.86	1.93
Fp (Accumulation)	1.36	1.43
Sp (Accumulation) <sup>(2)</sup>	0.25	—
W (Accumulation) <sup>(3)</sup>	1.00	—

(2) from 11 February 2013

(3) from 28 March 2013

The Ongoing Charges figure is made up of the Annual Management Charge (AMC) and other operating costs. The AMC is levied by the ACD and is used to pay the investment manager, financial adviser, fund accountant, fund administrator and distributor. Other costs including the administration fees cover the costs for other services paid for by the Fund, such as the fees paid to the Depositary, Custodian, Auditor and Regulator.

The Ongoing Charges figure shown is calculated on an ex-post basis over the period, whereas the Ongoing Charges figure shown in the KIID is a calculation as at a point in time, and therefore there could be immaterial differences between the two. Shareclasses with less than 12 months history may be estimated based on other shareclass data.

In addition to the above, a performance fee is charged on the basis outlined in Fund's prospectus. The performance fee charged for the period to 30 June 2013 is Ap (Accumulation) 0.19%, Fp (Accumulation) 0.21%, Sp (Accumulation) 0.11% and W (Accumulation) 0.16%.

#### Net Asset Value History by Share Class

Share Class	Net Asset Value (£)	Pence per share	Shares In Issue
<b>A (Accumulation)</b>			
31/12/2010 <sup>(1)</sup>	21,472,380	118.43	18,131,302
31/12/2011	10,617,186	118.13	8,987,590
31/12/2012	5,592,411	125.67	4,450,121
30/06/2013	5,206,683	128.42	4,054,403
<b>Ap (Accumulation)</b>			
31/12/2010	25,966,104	104.31	24,893,420
31/12/2011	109,723,263	104.29	105,208,092
31/12/2012	132,647,814	110.59	119,942,070
30/06/2013	164,687,100	112.85	145,939,862
<b>Fp (Accumulation)</b>			
31/12/2010	216,192,953	122.36	176,682,620
31/12/2011	221,611,924	122.97	180,221,620
31/12/2012	329,600,398	130.73	252,130,942
30/06/2013	334,365,545	133.63	250,226,263
<b>Sp (Accumulation)</b>			
30/06/2013 <sup>(3)</sup>	5,053	101.06	5,000
<b>W (Accumulation)</b>			
30/06/2013 <sup>(2)</sup>	14,510,213	100.42	14,449,034

(1) from 2 July

(2) from 11 February

(3) from 28 March

#### Price and Revenue Record by Share Class (Calendar Year)

Share Class	Highest Price (p)	Lowest Price (p)	Net Revenue per share (p)
<b>A (Accumulation)</b>			
2009	112.60	102.00	1.2985
2010	118.50	108.60	1.1876
2011	122.80	117.70	0.4696
2012	125.90	118.10	1.2505
2013	128.55	125.80	0.4374
<b>Ap (Accumulation)</b>			
2010 <sup>(1)</sup>	104.60	100.00	—
2011	108.20	103.90	—
2012	110.80	104.20	1.2073
2013	112.95	110.70	0.0919
<b>Fp (Accumulation)</b>			
2009	108.50	97.95	1.4799
2010	122.70	112.70	0.9523
2011	127.00	122.30	0.3237
2012	130.90	122.90	2.0055
2013	133.73	130.90	0.3534
<b>Sp (Accumulation)</b>			
2013 <sup>(3)</sup>	101.09	99.67	0.4752
<b>W (Accumulation)</b>			
2013 <sup>(2)</sup>	100.49	99.13	0.6726

(1) from 2 July

(2) from 11 February

(3) from 28 March

#### Major Holdings (%)

Holding	30/6/2013	31/12/2012	Change
Absolute Insight UK Equity Market Neutral Fund S Sterling Class	23.89	24.17	-0.28
Absolute Insight Currency Fund S Sterling Class	23.51	22.78	0.73
Absolute Insight Credit Fund S Sterling Class	22.39	22.88	-0.49
Absolute Insight Emerging Market Debt Fund S Sterling Class	20.30	21.44	-1.14
BNY Mellon Absolute Return Equity Fund X Sterling Class	8.43	8.10	0.33

#### Asset Allocation (%)

Investments	As at 30/6/2013	As at 31/12/2012	Change
Investments	99.29	99.37	-0.08
Cash & Others	0.71	0.63	0.08
	100.00	100.00	0.00



# INVESTOR INFORMATION

## GENERAL

BNY Mellon Managed Funds II (“the Company”), previously named Insight Investment Funds-of-Funds II was authorised by the Financial Conduct Authority (formerly Financial Services Authority) on 27 February 2007 as an umbrella company and currently has one sub-fund – Absolute Insight Fund (“the Fund”) – which is classified as an interest fund. It is a UCITS scheme as defined by the Financial Conduct Authority’s Collective Investment Schemes Sourcebook. The Company is incorporated in England and Wales as an investment company with variable capital (“ICVC”) under registration number IC000509.

Any assets, liabilities, expenses, costs or charges not attributable to a particular Sub-Fund may be allocated by the ACD in a manner which is fair to shareholders as a whole but they will normally be allocated to all Sub-Funds pro rata to the value of the net assets of the relevant funds.

Shareholders are not, however, liable for the debts of the Company. A shareholder is not liable to make further payments to the Company after he has paid the purchase price of the Shares.

## DILUTION ADJUSTMENT

As set out in the Prospectus, the ACD may make a dilution adjustment when calculating the price of a share. In deciding whether to make a dilution adjustment at any valuation point, the ACD will take into account the number of shares to be created or cancelled. Where the number of shares to be created exceeds the number of shares to be cancelled, the dilution adjustment to the share price will be upwards. Where the number of shares to be cancelled exceeds the number of shares to be created, the dilution adjustment to the share price will be downwards.

## EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to holders of these shares as a return of capital.

## ANNUAL AND INTERIM REPORTS

The ACD acts on instructions received from shareholders when making a copy of the Interim and Annual Short Report for BNY Mellon Investment Funds available each year.

## SIGNIFICANT EVENTS

### With effect from

9 February 2013 - ACD changed from Insight Investment Funds Management Limited to BNY Mellon Fund Managers Limited.

9 February 2013 - the name of the Company changed to “BNY Mellon Managed Funds II”. In addition, the name of the initial Fund changed from “Absolute Insight” to “Absolute Insight Fund”.

13 June 2013 - KPMG Audit Plc resigned as auditor to the Company.

25 July 2013 - Ernst & Young LLP were appointed as auditor to the Company.

# INVESTMENT FUNDS INFORMATION

## MANAGEMENT AND PROFESSIONAL SERVICES

### Company

BNY Mellon Managed Funds II  
BNY Mellon Centre  
160 Queen Victoria Street  
London EC4V 4LA

### Authorised Corporate Director (ACD)

BNY Mellon Fund Managers Limited  
BNY Mellon Centre  
160 Queen Victoria Street  
London EC4V 4LA

### Investment Manager

Insight Investment Management  
(Global) Limited  
160 Queen Victoria Street  
London EC4V 4LA

### Administration

The Bank of New York Mellon  
(International) Limited  
One Canada Square  
London E14 5AL

### Depository

National Westminster Bank plc  
135 Bishopsgate  
London EC2M 3UR  
Authorised and regulated by the  
Financial Conduct Authority

### Principle place of business:

Trustee & Depositary Services  
International Banking  
1st Floor  
Younger Building  
3 Redheughs Avenue  
Edinburgh EH12 9RH  
Authorised and regulated by the  
Financial Conduct Authority

### Auditors

Ernst & Young LLP  
Ten George Street  
Edinburgh EH2 2DZ

### Priceline

(i) Call, free, on 0500 330 000

### Client Enquiries

(i) Call, free, on 0800 614 330  
(ii) Call, +44 (0) 203 528 4002

### Authorisation

BNY Mellon Fund Managers Limited is authorised and regulated by the Financial Conduct Authority (formerly the Financial Services Authority). A member of the Investment Management Association (the "IMA").

BNY Mellon Fund Managers Limited is registered in England No. 1998251.

A subsidiary of BNY Mellon Asset Management International Limited with effect from 29 October 2012, prior to that a subsidiary of BNY Mellon Asset Management International Holdings Limited.

# IMPORTANT INFORMATION

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