Aviva Investors
Global Equity Endurance Fund

Giles Parkinson, Fund Manager

November 2019

November Commentary – Responsible Investing

Fund Overview

The Fund seeks to achieve resilient returns over the long term by investing in a high-conviction, low turnover portfolio of 'cheap endurables', predictable cash generative businesses acquired at attractive cash-based valuations.

Performance

- The Fund rose by 2.6% in November; the MSCI All-Countries World Index rose by 2.4%.
- YTD the Fund has risen by 29%; the MSCI All-Countries World Index has risen by 22%.
- Since inception the cumulative monthly capture ratio of the Fund has been 1.3, with an average upside capture of 100% and downside capture of 74%.

Month in Review

Equities recorded fresh all-time-highs in November.

The largest single positive contributor to returns in the month was **British American Tobacco** (+39bps). The company reported results showing that their conventional cigarette business continues to grow at a mid-single-digit rate, but more importantly the FDA released its near-term regulatory agenda which dropped references to exploring the possibility of reducing the nicotine level of conventional cigarettes, a policy that could have been tantamount to de facto prohibition. The United States accounts for around half of the profitability of BAT. This marks official reversal of a regulatory item first introduced 28 July 2017. The policy may return at a future date under different FDA leadership. But, for the time being, this looks to be the 'end of the beginning' for the derating of tobacco stock multiples versus the Consumer Staples sector. The industry continues to be a significant holding, accounting for a little over 6.3% of the fund at month-end, and our integrated ESG approach that engages with corporates and considers all paths to sustainable futures allows us to continue holding these companies whilst fulfilling both fiduciary and ESG obligations.

UnitedHealth Group (+37bps) contributed positively to returns for a second consecutive month as negative market sentiment towards stocks exposed to the 'Medicare For All' political debate in America reversed.

The largest single negative detractor was **Wolters Kluwer** (-15bps) following marginally disappointing results involving a write-down at their small Emmi business. Acquired in 2016, it was first flagged as disappointing in mid-2018, so this is not a complete surprise. Emmi is now a rare example of an A&D misstep by the company. Elsewhere, the other 99% of Wolters Kluwer business remains on track.

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Judged by industry flows and fund launches, ESG-aware investing is the flavour du jour. According to internal figures, this year 55 percent of RFPs have asked how we incorporate ESG issues into our decision-making process, up from 14 percent three years ago. 1. Global Equity Endurance has adopted this approach since inception. As active, long-term shareholders, we have the right, the obligation, and the return-seeking incentive to integrate ESG factors as they pertain to the sustainability of future cashflows and considerations of intrinsic value. Looking to outperform, we try to avoid companies that are building up a hidden environmental or social deficit. Corporate governance is critically important because it involves the incentives driving capital allocation, essential as over the long-run, stockholder returns match the capital return of the underlying business. It is somewhat ironic, then, that passive strategies have taken the lion's share of ESG fund flows, when by their very nature they have little incentive to hold management teams to account. Moreover, their only sanction – divestment – is typically done on the basis of simplistic negative screens that overlook nuance and precludes the possibility of fostering positive change. Only low-turnover, fundamental funds focused on the future like Global Equity Endurance can be authentic activists able to conduct appropriate engagement with corporate managements and boards.

Allocators are trying to do the right thing. We all want – and need – the economy to be run on a more sustainable footing. But the slow demise of active fund management in favour of passive alternatives arguably makes this less likely. They might be low fee, but they're not necessarily low cost, and are arguably harbouring hidden deficits of their own. Passive ESG strategies are not the answer, either. Awareness of these risks is growing, and responsibility is being increasingly felt across stakeholders throughout the market. A recent Financial Times article described how Dutch pension funds overseeing €923bn in assets were likely to cut their exposure next year for this very reason. 2. Fiduciary duty need not ever be opposition to ESG if the latter is part of all your analysis and investment process. Within Global Equity Endurance, ESG is fundamentally integrated into our investment philosophy, embedded into assessments of intrinsic value and future opportunity.

During the month the Fund passed the three-year milestone. Since inception it is up 14.8% annualised gross of fees, 2.9% ahead of the MSCI ACWI performance comparator, itself up 12.0% annualised. The capture ratio of the fund is an attractive 1.34x, comprised of 100% upside and 74% downside capture. Net of fees, the Fund is fourth percentile within the Morningstar Global Equity Blend category and second decile amongst the Lipper Global Equity peer group.

1. Aviva Investors – November 2019

2. Financial Times, 'Dutch pension funds set to pivot from passive to active management', 10th November 2019

Looking Ahead

The Global Equity Endurance Fund is a portfolio of what we believe to be above-average businesses trading at a cheaper free cash flow yield than the market and a discount to their intrinsic value. A combined focus on the durability of a company and the price we pay for the stock enables us to exploit opportunities and ought to make the approach adaptive to changing market conditions. As a long-term strategy with low turnover we fully expect and recommend that unitholders judge our performance over a period of five years or more.

Source: November 2019

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Key Risks

The value of an investment and any income from it can go down as well as up and can fluctuate in response to changes in currency and exchange rates. Investors may not get back the original amount invested.

Certain assets held in the Fund could be hard to value or to sell at a desired time or at a price considered to be fair (especially in large quantities), and as a result their prices could be very volatile.

The Fund Invests in emerging markets, these markets may be volatile and carry higher risk than developed markets.

The Fund invests in a small portfolio of securities. Losses from a single investment may be more detrimental to the overall performance than if a larger number of investments were made.

The Fund uses derivatives; these can be complex and highly volatile. This means in unusual market conditions the Fund may suffer significant losses. In unusual market conditions, the Fund may have difficulty selling its investments, which may cause it to suffer losses, defer redemption payments or suspend dealing in shares.

Investors' attention is drawn to the specific risk factors set out in the fund's share class key investor information document ("KIID") and Prospectus. Investors should read these in full before investing.

Important Information

RA19/1679/01072020