Strategy in brief

Aviva Investors
Global Equity Endurance Strategy

A global, high-conviction, low turnover portfolio of 'endurable' businesses

It takes Aviva Investors

Why Aviva Investors Global Equity Endurance strategy?

Differentiated resilience with ‘Upside’

The strategy seeks to achieve attractive, resilient total returns over the long-term while reducing the risk of capital loss by investing globally in a high-conviction, low turnover portfolio of “endurable” businesses.

Distinctive emphasis on:

Predictability

We focus on companies that offer predictable free cashflow and sustained competitive advantages, avoiding the more cyclical businesses in favour of those that we believe can continue to deliver sustained growth through the economic cycle.

Protection

We aim to protect capital through a deep understanding of ESG* risks, balance sheet and valuation characteristics.

We look for those businesses that can sustain their dominant market position through a variety of barriers to entry that gives them greater resilience than peers.

Upside

Seeking predictability and resilience in companies, should not come at the expense of upside (potential future value). Changes in multiples and valuation drive short-term performance, hence ‘quality’ sectors hold up better in a downturn but in the long run, share price performance is driven by the ability to grow cash flows.

We focus on businesses that we believe can turn their dominant market positions into sustainable cash flow growth, and share price performance, through market leadership and network effects.

*ESG stands for Environmental, Social and Governance.

Five golden principles for performance persistence[1]

Finding productive companies, understanding durable competitive advantages and network effects, in combination with valuation discipline, can help managers generate long-term outperformance on a persistent basis.

1. ## Focus on companies, not sectors
   There can be significant divergence in returns within any sector; some companies will have characteristics or business lines that span more than just one sector.

2. ## Look for productivity and persistence
   A cross-section analysis of return-on-equity reveals that good companies tend to stay good, and vice versa. Focus on "productive companies" that can deliver large and persistent free cashflow/earnings per share growth.

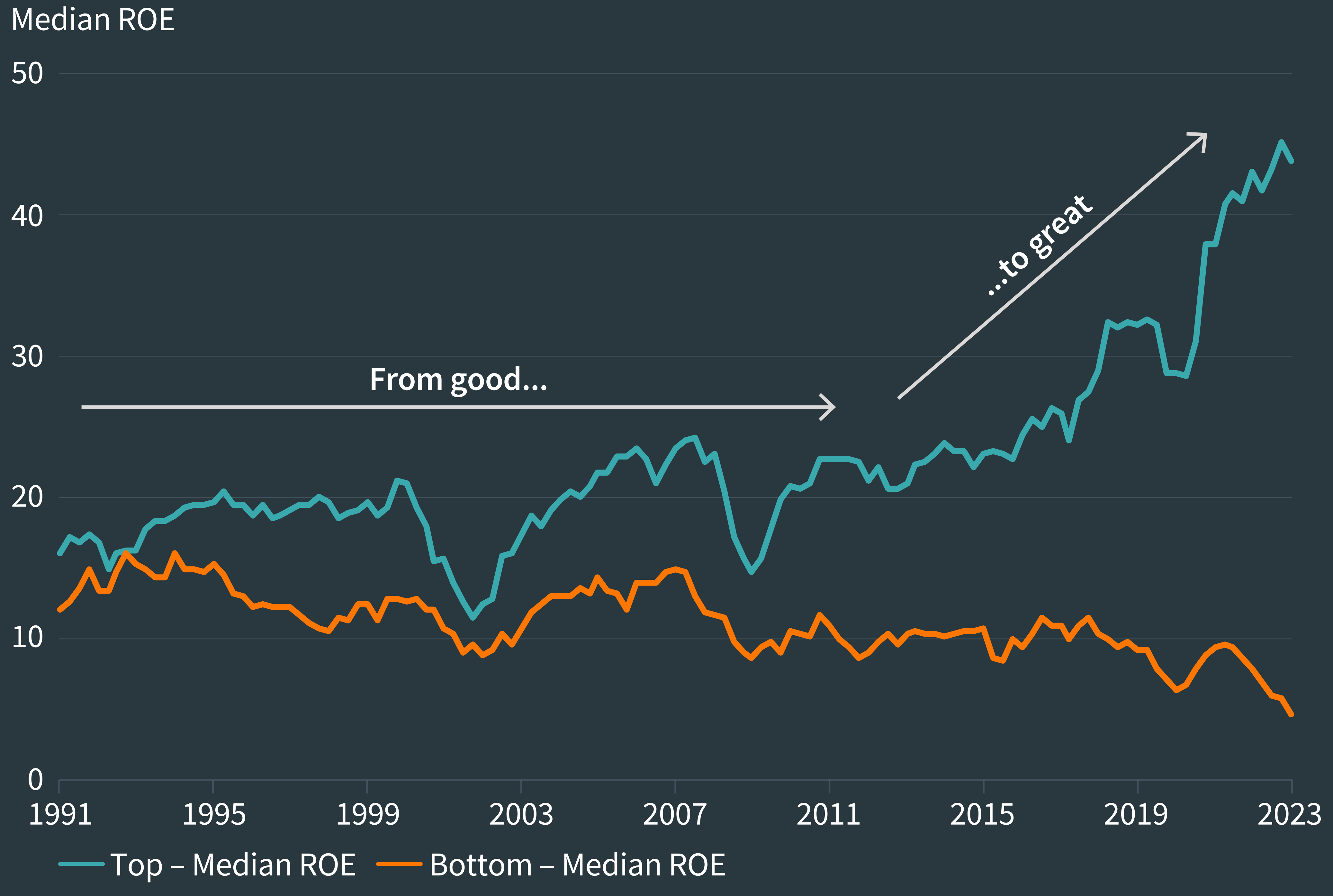
3. ## Focus on durability
   What matters is not so much the magnitude of a company's profitability or productivity but more the length of time it is able to maintain it.

4. ## Shift from linear to exponential growth with modern moats
   'Network effects' are one example of modern moats, or competitive advantages, which enhance both the durability and growth profile of a company, helping it to achieve accelerating rates of return as it grows (exponential growth).

5. ## Get real on valuations and insist on a margin of safety
   To sense check the intrinsic value estimate of a discounted cash flow (DCF) model, the inputs can be restated in terms of prospective returns. The drivers of returns are the cashflows the company is expected to produce, the growth in those cashflows, and the valuation multiple ascribed to them – a combination of the art and science required.

Network effects have accelerated Returns on Equity

From good to great over the last decade



Past performance is not a reliable indicator of future results.

Source: Aviva Investors, Bloomberg. The S&P 500 was ranked by ROE as at 31 December 2023 and ranked into quartiles. Top and bottom quartiles median values are shown. Past High Profits consists of those companies in the quartile with the greatest ROE.

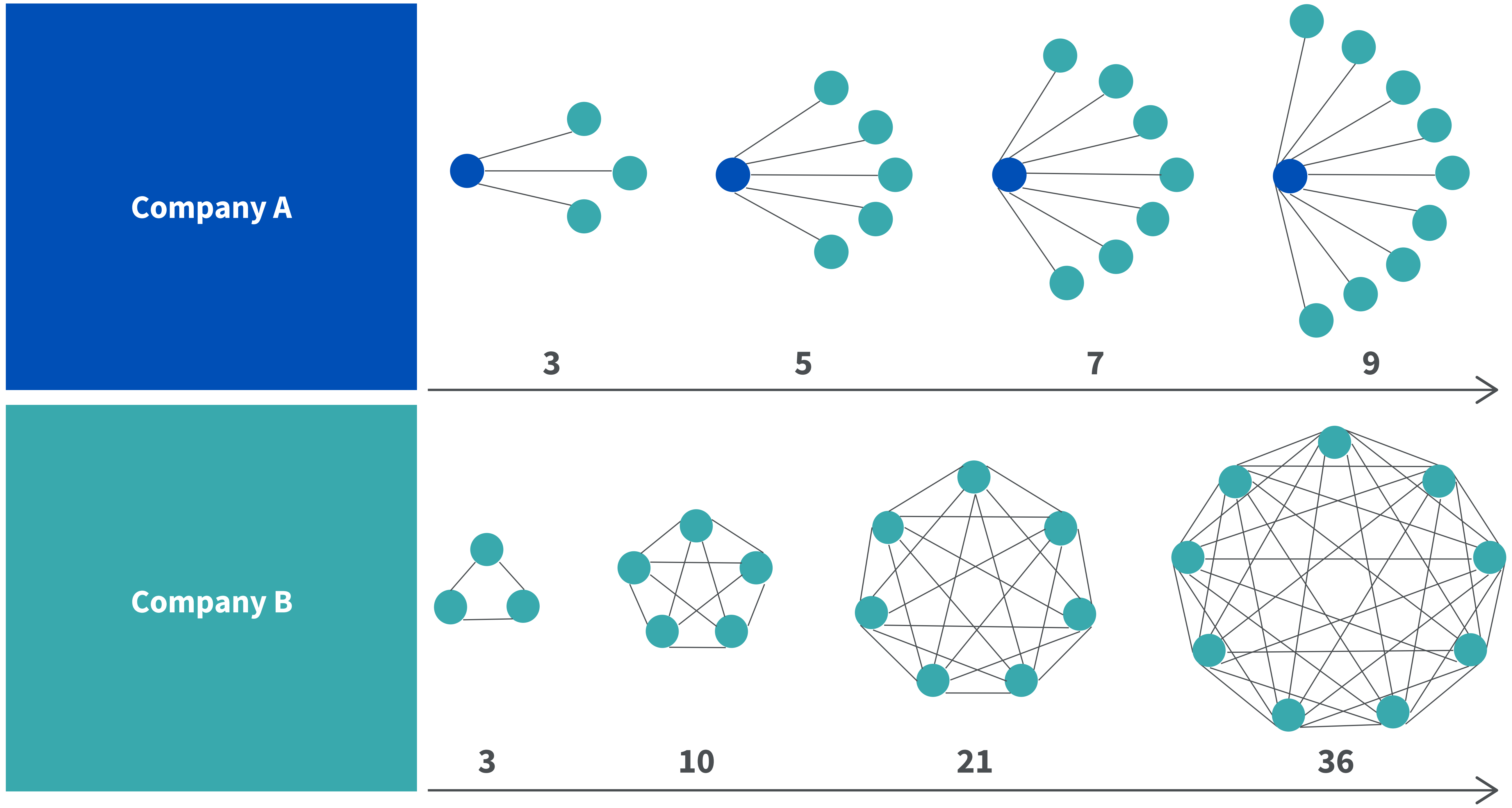
[1] Five principles for performance persistence, Aviva Investors, published March 15, 2023.

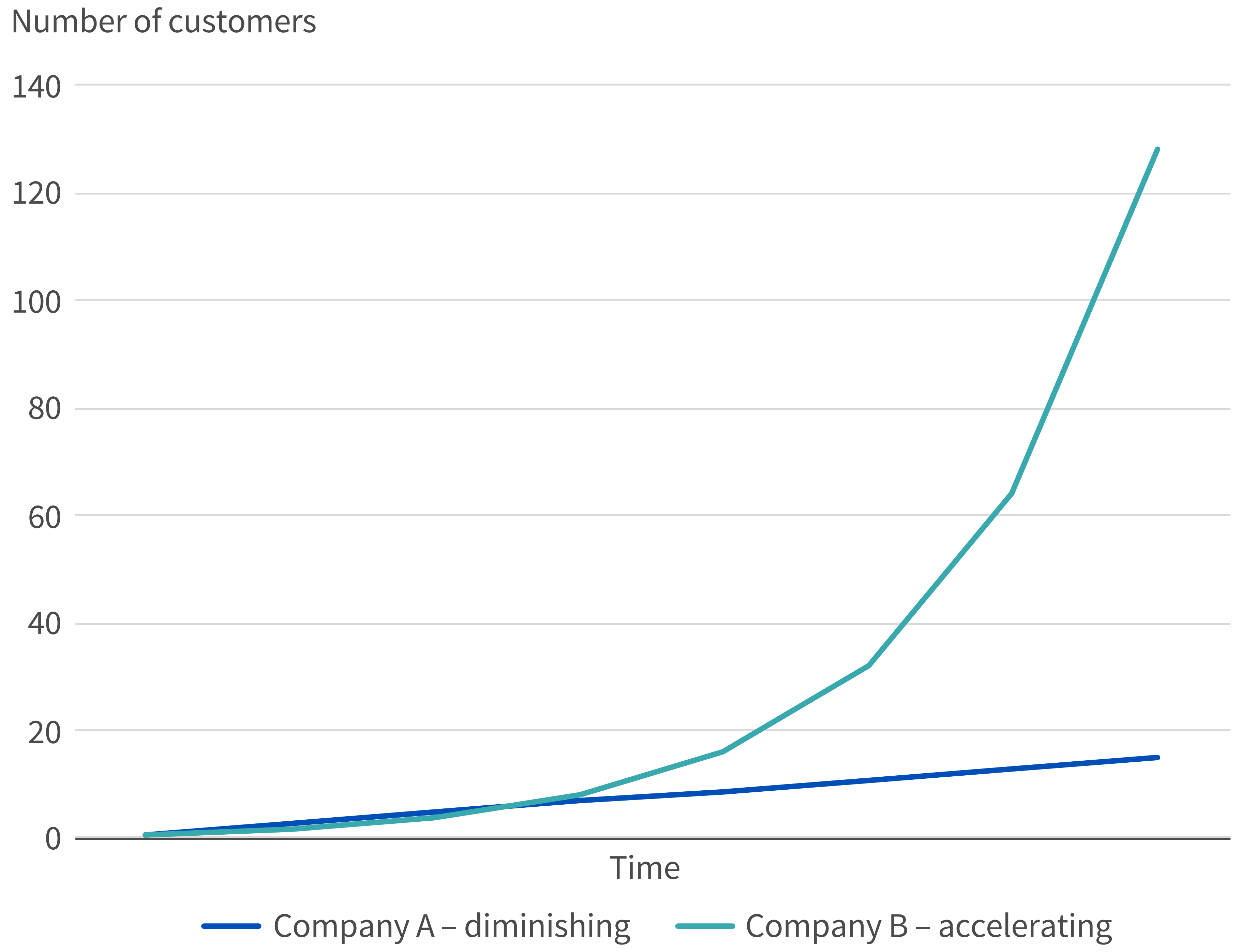
A ‘quality’ strategy distinguished by a focus on network effects

Our Global Equity Endurance strategy aims to deliver a portfolio with less cyclicality and higher predictability, alongside downside protection – but with a strong emphasis on capturing more of the upside.

We do this through ‘network effects’[1] that enable exponential growth

A framework for modern moats





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Source: Aviva Investors. For illustrative purposes only.

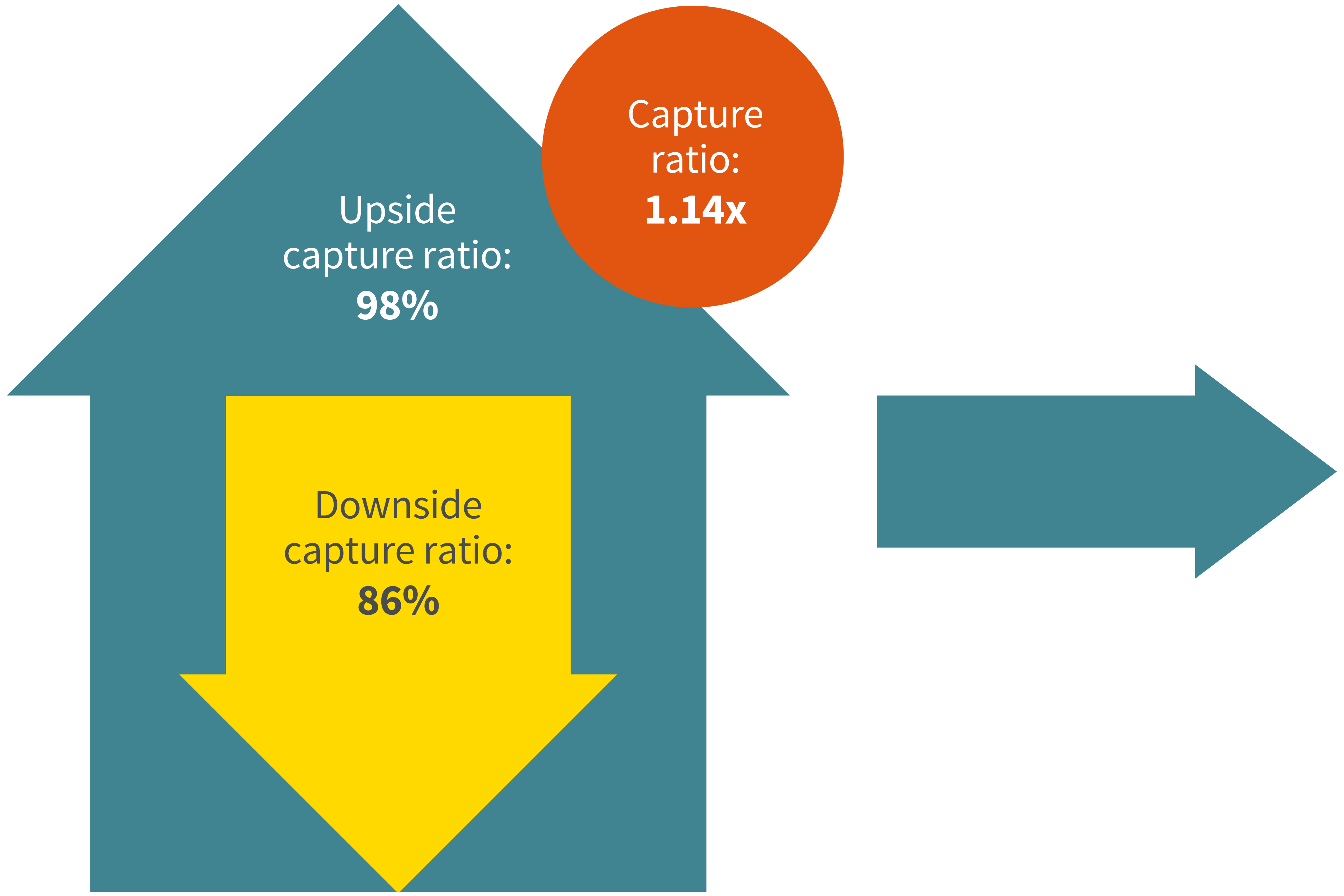
[1] Network effects occur in cases where the more customers a company has, the higher the value of its products and services for each customer. Managed well, this can create a powerful competitive moat and give a company strong pricing power, as the value to customers grows exponentially with each new customer joining the network. Network effects are most associated with the technology sector but can be found across various industries. They can also be direct, where users get value out of each other, or indirect, where user groups get value out of each other.

Seeking resilient returns in a variety of environments

Downside protection is only one side of the equation, but over the long term, equity markets tend to move higher.

An overemphasis on capital protection at the expense of returns can make hitting long-term performance targets challenging. Capture ratios provide useful insight into how fund managers have balanced absolute and relative risks in their portfolios.

Aiming to control the downside while keeping up with rising markets to maximise compounding

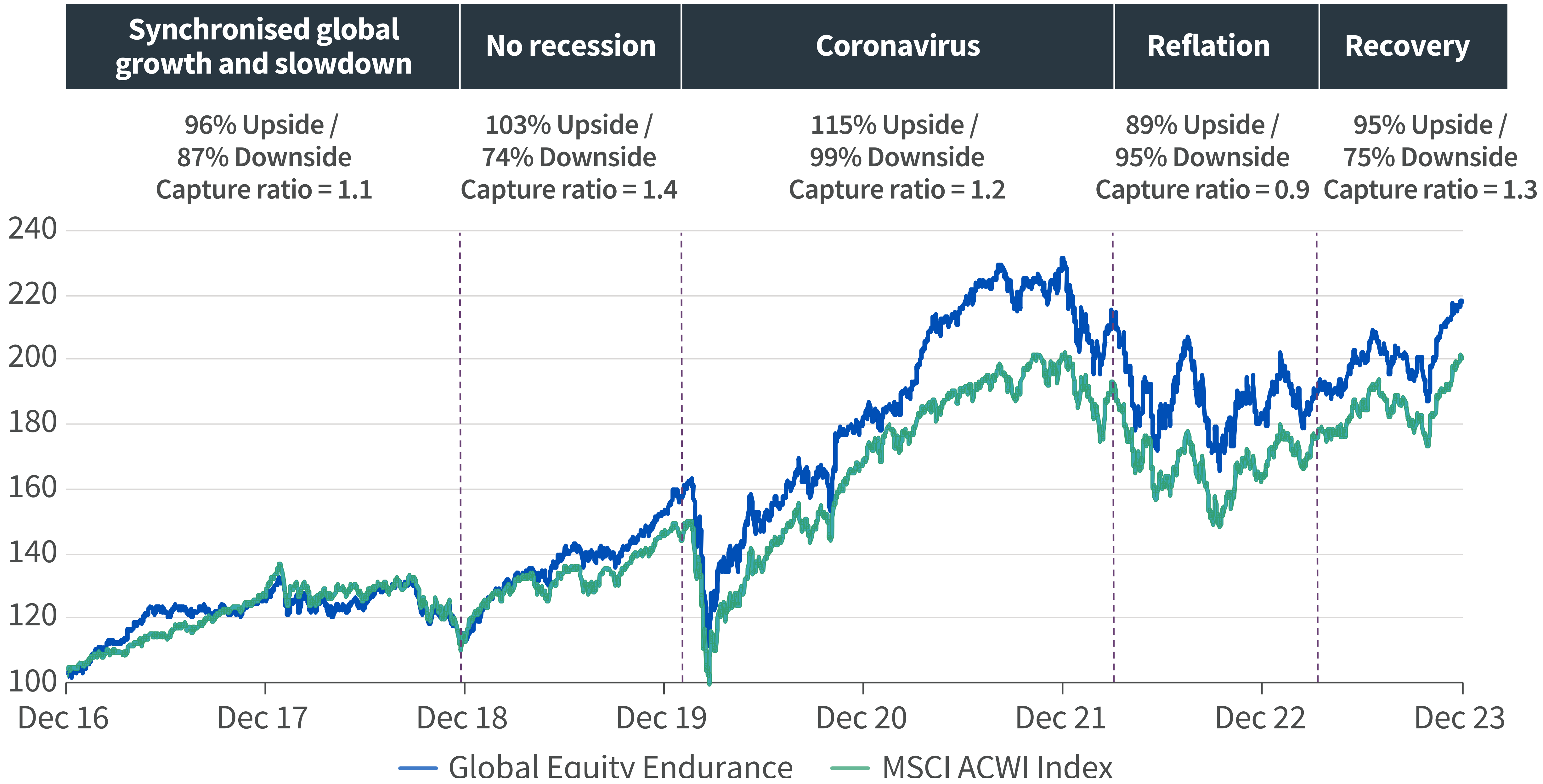


Past performance is not a reliable indicator of future results.

Source: Morningstar, capture ratios calculated for Aviva Investors Global Equity Endurance versus MSCI ACWI from January 1, 2019 to December 31, 2023.

Not all managers can deliver both upside and downside protection

– Our approach has delivered resilient returns in a variety of environments



Forecasts and past performance are not a reliable indicator of future performance.

Full, historical, calendar year performance for the representative account of the strategy can be found towards the end of the document (before 'Key Risks').

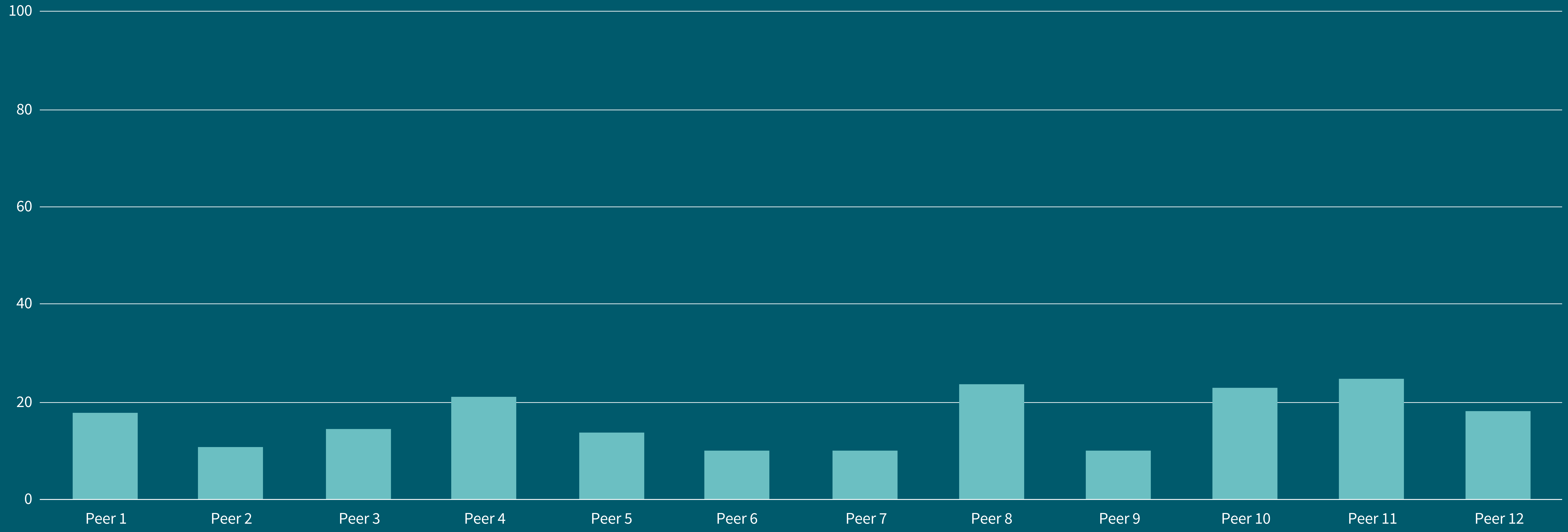
Source: Aviva Investors, as of 31 December 2023. Performance shown for a representative account of the Aviva Investors Global Equity Endurance strategy. Inception date of the strategy is 21 November 2016.

A truly differentiated portfolio

No narrow investment universe, complementary to peers

The strategy's differentiated approach, focusing on the upside, results in much lower overlap of investments with peers.

Holdings overlap (per cent)



Forecasts and past performance are not a reliable indicator of future performance.

Source: Aviva Investors, Morningstar, 5-year holdings overlap, as at December 31, 2023. Peer group selected based on Morningstar ratings, sales activity, net fund flows and AUM.

Portfolio characteristics

Portfolio characteristics	
Benchmark	MSCI ACWI
Manager performance aim	3%
No. of stocks	20-40
Active share	90%+
Absolute stock limit	10%
Sector limits	None
Geographic limits	None
Tracking error range	3-8%

	Aviva Investors Global Equity Endurance	MSCI ACWI
Productivity		
Return on capital	20%	6%
Return on equity	39%	14%
Operating margin	27%	13%
Earnings Growth Forecast (3-year CAGR)	14%	8%
1-year forward P/E	26.4x	18.4x
Cash Flow Conversion	102%	75%
Free Cash Flow Yield	3.8%	4.1%

Forecasts and past performance are not a reliable indicator of future performance.

Source: Aviva Investors, Bloomberg, as at December 31, 2023.

Powerfully integrated within the broader equity platform

With over 30 years of combined industry experience, the co-managers are backed by well-integrated equity and ESG teams.

Endurance	Income	Climate Transition	Natural Capital	Social Transition

Francois De Bruin
Global Equity
Portfolio Manager

Richard Saldanha
Global Equity
Portfolio Manager

Equities
$23.4bn AUM

Global Equity Strategies
$5.9bn AUM

Connected thinking maximises our resources

40+	70+	25+	50+	135+
Multi-asset and Macro	Credit	Equities	ESG	Real Assets

Past performance is not a reliable indicator of future results.

Source: Aviva Investors. AUM as at September 30, 2023. Team numbers as at December 31, 2023. ESG team number represents Liquid Markets ESG investment professionals only, Real Asset ESG investment professionals are included within the Real Assets number.

Historical calendar year performance for representative account

	1 Jan 14 – 31 Dec 14	1 Jan 15 – 31 Dec 15	1 Jan 16 – 31 Dec 16	1 Jan 17 – 31 Dec 17	1 Jan 18 – 31 Dec 18	1 Jan 19 – 31 Dec 19	1 Jan 20 – 31 Dec 20	1 Jan 21 – 31 Dec 21	1 Jan 22 – 31 Dec 22	1 Jan 23 – 31 Dec 23
Global Equity Endurance Representative Account	–	–	–	23.28	-8.84	32.08	19.83	26.11	-21.00	-20.01
MSCI ACWI Index	4.16	-2.36	7.86	23.97	-9.41	26.60	16.25	18.54	-18.36	22.20

Past performance is not a reliable indicator of future results.

Source: Morningstar.

Basis: Mid to mid, net income reinvested, net of ongoing charges and fees, in the share class reference currency and net of tax payable by the Fund.

The Strategy’s performance is measured against the MSCI All Country World Index net returns in USD.

Key risks

Investment Risk & Currency Risk

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 exchange rates. Investors may not get back the original amount invested.

Emerging Markets Risk

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

Derivatives Risk:

The Fund can use derivatives; these can be complex and highly volatile. Derivatives may not perform as expected meaning the Fund may suffer significant losses.

Illiquid Securities

Risk 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.

Concentration Risk:

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

Contact us

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Important information

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Where relevant, information on our approach to the sustainability aspects of the strategy and the Sustainable Finance disclosure regulation (SFDR) including policies and procedures can be found on the following link: https://www.avivainvestors.com/en-gb/capabilities/sustainable-finance-disclosure-regulation/

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