

STRATEGY IN BRIEF



Aviva Investors ReturnPlus Strategy

A capital efficient way of putting excess cash to work

Overview

Aviva Investors ReturnPlus Strategy is designed with the aim to help investors enhance returns on excess cash by investing in short-maturity, highly-rated fixed-income securities where T+0 liquidity is deemed unnecessary. The strategy invests in liquid sovereign and corporate debt, targeting structural premia in global fixed income markets. Interest and exchange rate risks are hedged to produce a floating rate outcome. Overall, the intention is to optimise returns while mitigating risk and maintaining liquidity.

Aims of the strategy

1

Enhanced returns

Targeting SONIA¹ +0.75% p.a., ESTR² + 0.50% p.a. and SOFR³ +0.75% p.a.*

2

Capital efficiency

Spread risk SCR^{**}: 2.5%

3

Liquidity

Daily redemptions, settled at T+3

Underpinned by a robust & collaborative portfolio construction process

* Over a 3-year rolling period, regardless of market conditions ** Solvency Capital Requirement, using illustrative SII Standard Formula as at 31 December 2020

1 GBP Strategy targeting Sterling Overnight Index Average, a widely used interest rate benchmark and reference rate for sterling Overnight Indexed Swaps (OIS)

2 EUR Strategy targeting Euro Short Term Rate, the alternative euro risk free rate and replacement for EONIA. ESTR has been published since October 2019

3 USD Strategy targeting Secured Overnight Financing Rate, the alternative USD risk-free rate and replacement for LIBOR

Strategy History

- **First developed for Aviva's balance sheet funds to optimise return and capital efficiency on excess cash not required on a T+0 basis**
- **We focused on investing in high quality and short-dated global fixed income securities, with interest rate and currency exposures hedged back into the base currency**
- **Resulting in a strategy with a strong 5-year performance track record and historically low volatility since inception (see table 1.2)**

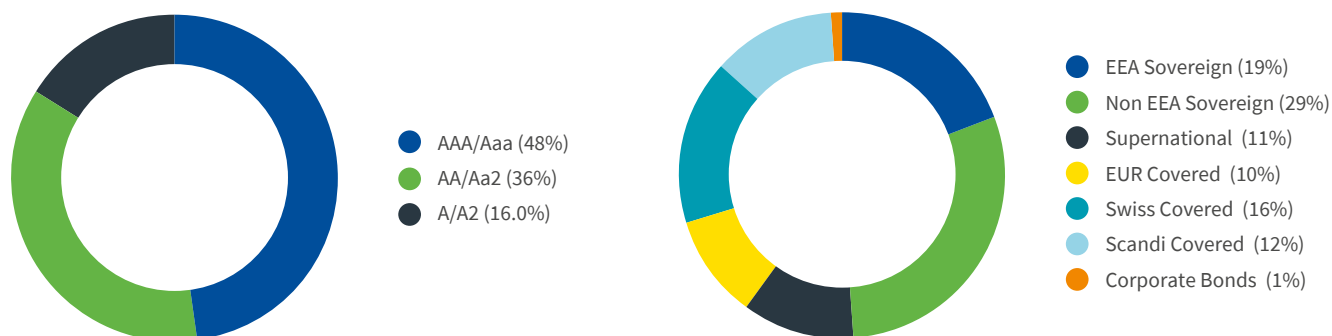
With the objective of optimising returns and achieving capital efficiency, our strategy is not limited to any single currency or geography, and is based on highly-rated and short-maturity fixed income securities, comprising sovereign, supranational, agency, high quality corporate and covered bonds.

The outcome is a liquid, geographically-diversified strategy that uses derivatives to isolate credit spread risk and mitigate interest rate and FX risk, resulting in low solvency capital charges.

Past performance is not a guide to future returns

Focused on liquid, short-dated debt

Illustrative portfolio allocation



For illustrative purposes only. Ratings provided by S&P and Moody's

Key Facts (Table 1.1.)

Portfolio Manager	Todd Cutting
Strategy Inception Date¹	31 October 2014
Strategy AuM²	€5.8bn
Target Return³	SONIA +0.75% p.a., ESTR +0.50% p.a. and SOFR +0.75% p.a.
Currency	GBP, EUR, USD ¹
Use of Derivatives	Strategic use to isolate rewarded risk factors

1 GBP Strategy established 31st October 2014, EUR launched 17 March 2020 and USD estimated launch Q1 2021

2 Source: Aviva Investors, as at 31 December 2020

3 GBP Strategy: Sterling Overnight Index Average. EUR Strategy: Euro Short Term Rate. USD Strategy: Secured Overnight Financing Rate.

Synthetic EUR Performance (%p.a.) (Table 1.2)

	1Y	3Y	Since inception
Gross performance	0.97	0.49	0.53
Net performance	0.82	0.34	0.38
Benchmark	-0.55	-0.49	-0.41
Relative (Gross)	1.01	0.48	0.44
Volatility	1.60	1.00	0.80

Synthetic performance for EUR Strategy calculated assuming GBP composite data with monthly rolls of 3m FX forwards, adjusted daily. Inception date is 01/11/2014, GBP Strategy. Performance is expressed gross of fees and fund expenses, in EUR. Benchmark is Euro Short Term Rate. Relative (Gross) performance is relative to performance target (ESTR+0.50%).

Outcomes may not be achieved and are subject to change. Simulated past performance is not a reliable indicator of future performance. Source: Aviva Investors, as at 31 December 2020

Identifying structural inefficiencies in global markets



Macro approach combined with issuer level analysis

Positioning to benefit from regional spread premiums

Strategic credit positioning



Total return approach taking account of credit spread and currency hedges

All instruments hedged back to base currency

Strategic currency positioning



Relative value opportunities in credit and cross currency markets

Monitoring primary markets to capture new issue premium

Tactical portfolio management

Key Risks

Investment & 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.

Derivatives Risk: The strategy uses derivatives, these can be complex and highly volatile. Derivatives may not perform as expected meaning the strategy may suffer significant losses.

Illiquid Private Asset Risk: Where strategies are invested in illiquid private assets, investors may not be able to redeem any units in the strategy when they want because illiquid private assets may not always be readily saleable. If this is the case we may defer a request to redeem units.

Credit Risk: If the financial health of the issuer of a bond or money market security weakens, the value of the bond or money market security may fall. In extreme cases, the issuer may delay scheduled payments to investors, or may become unable to make its payments at all, and the issuer's bonds or money market securities may become worthless.

Portfolio Management



Todd Cutting

Portfolio Manager, Solutions, Lead on ReturnPlus

Todd is a portfolio manager within our Solutions business and is responsible for portfolio management, structuring and reporting for the insurance and pensions portfolios. He is also the lead manager for the ReturnPlus range of portfolios. Todd develops and implements investment strategies in low risk relative value opportunities, and has a particular interest in structural dislocations in global funding markets.

Prior to Aviva Investors, Todd was at UBS Global Asset Management, working as an analyst covering fixed income and multi asset. Todd graduated from the University of Bath with a BSc (Hons) degree in Mathematics and has passed his CFA Level 3 exam.



Rakesh Girdharlal

Portfolio Manager, Solutions, Head of Liability Driven Investment

Rakesh is a portfolio manager within our Solutions business and is the head of the LDI team. His responsibilities include portfolio structuring, monitoring and reporting for pension and insurance clients. Rakesh offers highly-experienced support for the ReturnPlus range.

Prior to Aviva Investors, Rakesh was the ALM Executive at Cardano risk management, where he was responsible for LDI portfolio management and ALM for defined benefit pension schemes. He has also worked at Mercer, PricewaterhouseCoopers and Liberty Life.

Rakesh graduated with a BSc degree in Actuarial Science and Statistics from the University of the Witwatersrand and is a Fellow of the Institute of Actuaries.

Contact us

Alex Wharton

Head of Insurance Relationships, Global Client Solutions
M: +44 (0)7384 451071
E: alex.wharton@avivainvestors.com

Aviva Investors

St Helen's
1 Undershaft
London, EC3P 3DQ
Tel: +44 (0) 20 7809 6000

Composite disclosure

The aim of the strategies within this composite is to outperform SONIA by 75bps, invests in low default risk fixed income securities and takes advantage of structural dislocations in funding markets. The investment strategy aims to generate returns by investing in short-dated, highly rated fixed income securities, derivatives and cash, rating of single A and above, maturity less than 10 years with WAM of the portfolio less than 5 years. To achieve the investment objective, investments may be made in interest rate, FX (non-GBP) and inflation risk hedged using cross currency swaps, interest rate swaps and FX forwards. This composite was created on 31/10/2014. With a start date of 31/10/2014. Returns are presented gross of management fees and other expenses. For unitised strategies, gross returns are calculated by adding back the Annual Management Charge (AMC) only, or part thereof, to the net return. Actual fees charged are dependent on the mandate and value of client assets. The fee scale for pooled clients ranges from 0.2% p.a. to 1.8% p.a. and for segregated mandates the fee scale starts at 0.5% p.a. All income is taken gross of tax, but net of irrecoverable taxes. Further information is available upon request. Composite dispersion is calculated using the asset-weighted standard deviation of all portfolios that were included in the composite for the entire year. If the composite includes less than 5 portfolios for the full year no measure of dispersion is shown. Additional information regarding policies for valuing portfolios/strategies, and calculating and reporting returns is available upon request. A list and description of all composites is available upon request. Three-year annualised ex post standard deviation measures for both the composite and benchmark are shown as Composite Risk and Benchmark Risk. This information is not presented when there are less than 36 monthly observations available. This composite is benchmarked against the overnight deposit which is based on rates that contributor banks in London offer each other for inter-bank deposits.

Important Information

Except where stated as otherwise, the source of all information is Aviva Investors Global Services Limited ("Aviva Investors"). Unless stated otherwise any views, opinions and future returns expressed are those of Aviva Investors and based on Aviva Investors internal forecasts. They should not be viewed as indicating any guarantee of return from an investment managed by Aviva Investors nor as advice of any nature. The value of an investment and any income from it may go down as well as up and the investor may not get back the original amount invested. Past performance is not a guide to future returns.

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