Aviva Investors Charges and Costs Questions and Answers

What costs does a fund need to disclose?

There are four types of costs that an investment fund must now disclose, both before a fund is sold to an investor, and on an ongoing annual basis:

- **One-off Charges** – these would include entry and exit charges. These are charges that apply when entering or exiting a Fund. As at the date of this document, we do not currently apply an Entry or Exit charge to any UK Funds.
- **Ongoing Charges** – these are taken annually for managing the fund and are calculated within the share price.
- **Transaction Costs** – costs which are incurred when trading underlying investments
- **Incidental Costs** – ad-hoc charges such as performance fees (as at the date of this document, we do not charge a performance fee on any of our funds).

For most of our funds the charges applicable to you will be the Ongoing Charge and Transaction Costs.

What's included in the Ongoing Charge?

The ongoing charge is a historic measure of the annual costs of managing a fund, in some circumstances we may provide an estimate of the upcoming costs where this provides a better indication. The main components of the ongoing charge are:

- Fund Management Fee (FMF)
- Synthetic Charges (where applicable)

The prospectus for each fund provides further information on the costs and expenses that are included in the ongoing charge.

What is an Economies of Scale Discount?

Economies of scale is a discount applied to retail share classes which passes on the potential benefits of a Fund's scale to investors. These discounts are based on the size of the Fund and on any given day will automatically reduce the Fund Management Fee (a component of the Ongoing Charge Figure) for that share class by a fixed amount when a defined "Trigger Point" has been reached. The Trigger Points are set levels at which we consider a Fund to be "at scale" (by which we mean the optimum size for management) and are based on historical growth. Once a trigger point has been reached or passed, we discount the FMF by the prescribed percentage. The discount will remain applied whilst the Fund continues to meet / exceed the set Trigger point. At all other times the FMF will be charged at the rate as set out in the Fund's prospectus. For further details on the Economies of Scale discounts and the trigger points at which they apply, please refer to the Fund's prospectus.

What is the Fund Management Fee (FMF)?

The Fund Management Fee is a single fixed rate charge that we charge to cover the underlying fees, costs and expenses of operating and administering a fund. The underlying costs may fluctuate, however by fixing the fund management fee we bear the risk that the balance of the fee payable to us will not fully remunerate us in the event of a deficit, but conversely, we will be permitted to retain any surplus.

What are synthetic charges?

In reference to Aviva Investors Funds, the synthetic charges are incurred by the fund if it invests a substantial proportion of its assets in other funds. When a fund invests in other investment vehicles which have ongoing charges, the Aviva Investors Fund will incur the impact of these fees when buying or selling assets in these other Funds. The synthetic charge is the pro-rata amount charged by these other Funds. Aviva Investors seeks to control the impact of these charges by procuring investment on the most favourable terms and accessing share classes in these funds that, typically, charge a lower fee than share classes sold to non-institutional investors.

What are transaction costs?

Transaction costs are incurred when the fund manager buys or sells investments or assets for a fund. They include both the explicit (i.e. direct) cost of trading as well as implicit costs, which are intended to reflect the market impact of trading. Funds that invest in other funds will also incur indirect costs that arise when they buys or sell assets and incur charges for their Funds. This creates a cost in the same way as the above-described synthetic charges, which are passed on to an Investor or another Fund. Costs are determined and calculated in accordance with rules set by the regulators under MiFID II and PRIIPs[1].

How does Aviva Investors seek to control transaction costs?

Aviva Investors experienced and highly skilled trading team are focussed on achieving the best outcome for clients, consistent with our regulatory responsibility to achieve best execution. In part, this involves keeping the direct costs of trading low but, importantly, also seeking the best price for transactions in the fund's underlying investments.

What's included in the transaction cost?

Transaction costs can be split into two types of costs; explicit costs which are incurred when the fund buys and sells investments, and implicit costs whereby there is no specific cash payment. Indirect transaction costs arise when investing into other funds and are the costs incurred within those funds when they buy or sell assets and incur costs.

What is an explicit cost?

Also referred to as direct transaction costs these are cash payments incurred when the fund buys and sells investments, and which reduce fund returns. These costs are separate from the ongoing charge and include broker commission (fee paid to a broker to execute a trade) and taxes. The transaction costs are the result of decisions made by the fund manager to buy and sell investments with the strategic aim of benefitting the portfolio and improving returns to achieve the objective of a fund.

What is an implicit cost?

Also referred to as slippage costs, these are costs that occur when buying or selling securities and are generally the differences between possible price impacts and realised price impacts, as further detailed below. These costs aren't directly paid out or recorded but can impact the overall return on investment. They include:

- Bid-ask spread: The difference between the buying price (ask) and the selling price (bid) of a security.
- Market impact: The effect of a large trade on the market price of the security.
- Opportunity cost: The potential gains lost when a trade isn't executed at the optimal time.

Implicit costs may be positive or negative. Where an implicit cost in a fund is positive i.e. a gain, this has been reduced to zero, as we believe it would be confusing to disclose a gain.

What is an indirect cost?

When funds invest into other funds, the other funds will have their own costs and charges for buying and selling assets that are passed on to investors. In this circumstance, these costs will be passed to the Fund purchasing units in the other Fund. This charging structure works in the same way as to when transaction costs are passed to investors of Fund, however in this instance, the investor would be another Fund. These costs will be the same combination of explicit and implicit and indirect costs as calculated by the managers of the other funds. These costs are combined to total the indirect transaction costs which would be passed on to investors.

What is Dilution Levy (Investor Protection Fee)?

Funds typically have a pricing mechanism implemented to offset the cost impact of lager scale trading to existing investors caused by a large cash flow into or out of the fund. This means that if a fund receives a large investment (large money flow) into a Fund, the Fund will buy assets to utilise this cash, aiming to contribute to the funds performance. Any transactions to buy new assets for a Fund would incur transaction costs (as detailed above) which are generally passed to investors of the Fund. For larger investments, these costs can be significant and, under normal circumstances, would usually be passed to all investors, for the sole purpose of trading on one large investment. However, the Dilution Levy aims to counteract this ensuring that these transaction costs are paid by the transacting investors. The same mechanism applies for a large redemption from a Fund. The Levy is used to offset the transaction costs incurred with the aim of protecting existing investors from paying the costs of transacting due to buying and selling as a result of investors coming into and out of a fund.

Example: If an investor invests £100,000 into an Aviva Investors Fund, the trading costs for buying new assets created £300 of trading costs. This £300 could in the normal course of business be passed to all investors, however with a Dilution Levy applied, this £300 could be passed on explicitly as a dilution levy to the specific investor, meaning the total invested amount would be £99,700. The £300 dilution levy would then be paid into the fund, compensating it for the trading costs.

What's the difference between ex-ante and ex-post costs?

The ex-ante are the expected costs and associated charges of the fund. The ex-post costs are the actual costs incurred by the fund.

Where can I find a list of fund charges and costs for Aviva Investors funds?

You can find the full list of charges on our website or on the following link: https://www.avivainvestors.com/en-gb/capabilities/fund-charges-and-costs/

[1] The second Markets in Financial Instruments Directive (MIFID II) and the on regulation on Key Information Documents for Packaged Retail and insurance-based investment Products (PRIIPs) are European and UK rules that govern the disclosure and calculation of all charges and costs, including transaction costs.

Important Information

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