

Aviva Investors Funds ACS Value Assessment Report



April 2021

As Chairman of the board of directors (the “Board”) of Aviva Investors UK Fund Services Limited (“AIUKFSL” or the “Company”), and on behalf of my fellow Board members, I would like to introduce the Value Assessment for the year to 31 December 2020.



The AIUKFSL Board is responsible for monitoring and upholding the culture, values, standards and ethics, and reputation of the Company, and ensuring that it acts in the best interests of its customers at all times.

Aviva Investors has been helping to meet customers’ investment needs for over 50 years and continually strives to deliver value for our investors. In this report we set out how the Sub-fund has performed over the last 12 months, and where we have seen opportunities for improvement. In general I am pleased to say that despite a very challenging market due to the Covid-19 pandemic, the funds that we have reviewed for the year to 31 December 2020 have been resilient, and we have seen improved performance in areas where we identified concerns last year.

The Board takes the Value Assessment very seriously, and the rigorous process that we have implemented will continue to drive improvements where they are necessary. If you would like to understand more about how the Value Assessment is carried out and the factors we consider, I would encourage you to read the Value Assessment Approach document which explains how we have reached our conclusions.

I would like to thank you for trusting Aviva Investors with your investment and taking the time to read this report.

Mark White
Chairman

Value assessment approach

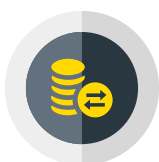
An introduction to value assessments

The following describes how we, as Authorised Fund Manager (AFM) of the Sub-funds, approach the assessment and the range of factors considered by the Board for each component.

This exercise is performed annually in addition to and in conjunction with our regular fund reviews. Those reviews include extensive assessments of service and performance for each Sub-fund, with appropriate action taken throughout the year. If the result of the value assessment is that charges are not considered to be justified in the context of overall value, appropriate action will be taken.

Components of the value assessment

1. Quality of service



Consideration is given to the range, nature, extent and quality of services provided directly to investors or undertaken on their behalf, and whether investors have benefited appropriately. This covers the services performed by the Company and its suppliers, as well as their reputation, expertise, resources and relative capabilities. This includes:

- The quality of the investment manager, including their processes (trading, risk management, compliance, technology, research and operational) and any environmental, social and governance (ESG) factors that are integrated into the investment process.
- The quality of administrative and investor services provided to the Sub-fund, using investor satisfaction surveys, complaints and data relating to operational accuracy to assess the positioning of the Company and its products and services over time, and relative to other similar firms.
- The timely delivery of clear communications, and the appropriateness of information provided to investors to help them make informed investment decisions.

2. Performance



Consideration is given to whether Sub-fund performance, before and after the deduction of expenses, is within a reasonable range of outcomes relative to its objective, policy and strategy when measured over appropriate time periods. The time periods will be set out in the investment objective or policy, and performance over 1, 3, 5 and 7 years, or since inception if there is not a full seven year's performance data. Performance is also considered in the context of the relevant peer group and whether the Sub-fund operated in accordance with its respective risk limits and investment restrictions.

Sub-fund performance, as measured against its objectives, is assessed in the regularly scheduled fund review, which is taken into account in reaching the conclusions for the value assessment.

If the performance is considered unsatisfactory, the following factors may be taken into account where relevant:

- Explanations for any underperformance provided by the investment manager as part of the Company's fund performance governance model; and
- Any appropriate steps (such as consideration of changing the investment objective, policy, strategy or investment personnel) that have been taken or are intended to be made with the goal of improving performance.

The Company could consider changing the investment manager or closing the Sub-fund where no other viable options are available.

Further information on the specific performance of individual Sub-funds is included in the Fund Manager Report section of the Report and Accounts, covering the period relevant to that report.



3. AFM costs and charges

Consideration is given to whether charges are reasonable, taking into account the underlying costs for the services provided and the performance objectives of each Sub-fund.

The underlying fees, costs and expenses are detailed in the fund prospectus, but in summary cover the following payments:

- the fees and expenses of the Company as AFM;
- the fees and expenses of the Investment Manager;
- the fees and expenses of the Depositary;
- the fees and expenses of the Custodian;
- the fees and expenses of the Auditor;
- FCA fees.

To assist with the value assessment, a costs and charges model is used that allows us to assess the costs attributable to each Sub-fund. The Company will determine whether the costs allocated to each Sub-fund is a fair reflection of the costs of the services provided for the relevant unit class of each Sub-fund, with an appropriate allowance for the levels of income earned for the Company from these activities.



4. Economies of scale

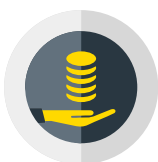
Consideration is given to whether investors have participated appropriately in any savings or benefits derived from the size of the Sub-fund. We also consider whether investors have benefited from the scale of the Aviva Group and the ability to negotiate favourable pricing with service providers due to the wide range of other products and services offered across the Group, along with the scale and range of other funds and assets managed by the Company.

The Board considers whether economies of scale have been realised in relation to the costs and operating expenses of each unit class and the extent to which investors might also benefit from financial savings that result. For example, whether the charges fairly reflects the fees charged in respect of the third party supplied services – which should be competitive due to the scale of Aviva and the potential breadth of other Aviva product ranges that the supplier also provides services for.

The assessment of the underlying service costs of running the Sub-fund, and the appropriate level of charges, takes place on an annual basis. Any changes to the underlying costs will be reflected in this analysis and may result in a change to the charges.

In looking at whether investors have benefited appropriately, either directly or indirectly, in any savings or benefits in relation to the management of the Sub-fund, the Board acknowledges the wider, albeit intangible, benefits to investors, such as the reputation, brand and financial strength of the Aviva Group.

The Board may also consider it appropriate to reinvest cost savings directly into the Company, to finance product development or retain savings for commercial reasons. Consideration will be given to the drivers of the scale generated in determining whether benefits should be shared or reinvested.



5. Comparable market rates

Consideration is given to whether the fees paid for each service provided to the Sub-funds by the Company or on its behalf are reasonable compared to fees for similar services in the market.

An independent consultant is used to carry out a periodic survey of the main expenses of the Sub-fund and those of competitors. The survey provides benchmarks for each of the main expense items associated with running a fund to help the Board determine whether the Sub-funds are paying a reasonable price.

The survey considers a number of expenses, including:

- Transfer agency fees
- Fund accounting fees
- Investment management fees
- Custodian fees
- Depositary fees
- Audit fees

Direct comparisons may be difficult because information is not generally publicly available and is affected by numerous factors. Where specific expenses are highlighted to be outliers in the report, the reasons for this will be considered to determine the extent to which they are appropriate.

The review will also consider the overall costs of comparable products, by benchmarking each Sub-fund against a suitable peer group. Where the aggregate charges (as calculated by the Ongoing Charges Figure) are greater than the average cost of equivalent peer group funds, consideration will be given to whether it would be appropriate to adjust the charge for each unit class.



6. Comparable services

The Board considers whether the fees charged by the Company for the services it performs for the Sub-funds are consistent with those charged by the Company and other companies within the Aviva Group. This considers other similar funds or services operated by the Aviva Group that are available in the UK, are of a comparable size, and are managed to similar objectives and policies.



7. Classes of units

The Board assesses whether investors hold units in the most appropriate unit class for their investment, in terms of fees applied.

Other factors may be considered in determining the conclusion of the value assessment, as deemed appropriate by the Board. If such other factors are considered, details will be provided in the value assessment report for the relevant Sub-fund.

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

Past performance is not a guide for future performance, the value of your investment can go down as well as up and you may not get back the amount invested.

Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned of 20.7% (gross of fees)*. The Sub-fund's benchmark, the MSCI® All Country Asia Pacific ex Japan Total Return, returned 18.7% over the same period.

Review

Positive stock selection in Korea, Taiwan, and Australia contributed to performance over the period. In Korea, our overweight position in LG Chem was the largest contributor to performance given the optimism over global electric vehicle trends, with the company being well-placed to benefit from rapidly rising volumes. Our overweight position in LG Electronics was another key contributor on the back of strong earnings momentum in Q4 and on a news announcement about a joint venture between the company and a global auto parts maker. In Taiwan, our overweight position in Novatek was the strongest contributor to performance on the back of strong display driver integrated circuit (DDI) demand and potential product price hikes.

Conversely, negative stock selection in Hong Kong and China detracted from performance. In Hong Kong, our overweight position in HSBC was the key detractor on the back of its surprise decision to suspend its dividends. The stock was further impacted by rising political tensions driven by China's plan to impose a National Security Law in Hong Kong. Our overweight position in Swire Pacific also detracted given continuous operation challenges for its aviation, marine, and trading related businesses. In China, our nil position in Meituan was the largest detractor to performance as shares performed strongly after the company reported strong results and as the market built in increased optimism over the longer-term profit potential for the group.

The Covid-19 situation in Asia remains broadly under control. While there have been new waves in some countries like Korea, Malaysia, and Indonesia, the new infection rate is relatively moderate compared to Europe and the US. The vaccine rollout has started and is likely to accelerate as countries continue to secure supplies. The emergence of a new virus variant in the UK and South Africa is a potential risk but most countries in Asia are keeping stringent border controls in place to mitigate this risk. This, however, implies that the recovery for travel-related sectors and economies (like Thailand) will be more protracted.

In 2020, China has seen a fast pace of economic normalisation on the back of supportive fiscal and monetary policies as well as quick control of the virus outbreak. In 2021, policymakers are likely to adopt a more calibrated approach to further stimulus to avoid overheating in some segments of the economy. The recent announcement by regulators to cap the banking sector's exposure to real estate loans highlights China's policy direction and intent. We continue to hold on to consumer names in China in areas such as sportswear, leisure, dairy, and snacks as overall domestic consumption remains robust.

Inflationary pressures are building up on the back of strengthening prices of commodities such as iron ore, coal, copper, and steel. This is starting to be reflecting in rising producer prices. It remains to be seen if producers will be able to pass on this inflation in end-product prices to consumers. Rising inflation expectations have firmed up the yield curve and has led to recent strong performance for financial stocks. However, given high global debt levels and the ongoing pandemic, a monetary tightening cycle looks unlikely at this stage. We remain cautious and selective in the financial space until there is more evidence of a sustainable higher interest rate cycle. In the commodities space, we continue to like the upstream mining companies in Australia which are benefitting from a strong pricing environment (iron ore, in particular).

The hardware technology sector remains in a sweet spot from 'stay at home' demand in areas like PC notebooks, smartphones, Wi-Fi routers, and TVs. The supply of some components has been constrained by US-imposed restrictions on the Chinese technology supply chain and is helping technology companies in Taiwan and Korea. Despite the recent run-up in stock prices, valuations remain reasonable especially relative to their A-share counterparts.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



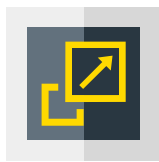
2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 8.2%* (gross of fees). The Sub-fund's benchmark, the UK GBP 3 month LIBOR (+4%), returned 4.3% over the same period.

Review

The spread of coronavirus profoundly affected global markets in the first quarter of 2020. Equities suffered steep declines and bond markets were highly volatile. US equities declined significantly, with confirmed US cases between 4 March and 27 March rising from 150 to over 100,000. The Federal Reserve cut rates twice in the month for the first time since the global financial crisis and announced unlimited quantitative easing.

As the coronavirus outbreak spread across Asia, we reduced exposure to the equity markets directly affected, cutting emerging markets and Japan. At the beginning of March, as we were facing a global pandemic with profound economic consequences, we reduced the equity allocation further, selling European, UK and US equities, with proceeds increasing the cash weight.

The lifting of lockdown measures combined with considerable worldwide policy support, particularly from European authorities, led to a robust rally in risk assets in the second quarter. Equities delivered the largest contribution to portfolio returns. Having cut the equity allocation to help protect the portfolio, we took the opportunity to add back some exposure in the quarter. May and June saw the easing of lockdown measures spread further into Europe. At the time, Europe was our preferred market as the European Central Bank continued to support liquidity, while the prospect of fiscal coordination served to alleviate political risk. We increased our allocation to European equities as a result in June.

The impact of the Covid-19 pandemic on the global economy remained the dominant theme for markets in the third quarter. However, risk assets broadly moved higher, underpinned by a continuation of supportive monetary and fiscal policy measures. Towards the end of the third quarter, the run-up to the US election at the start of November created uncertainty and increased market volatility.

We retained a moderate level of risk over the third quarter, increasing the overall equity weight slightly. A key development during this period was the weakening of the US dollar, with the portfolio benefitting from currency translation effects of hedging US dollar exposure back into sterling. A weaker dollar helped loosen monetary conditions in emerging markets and supported our existing allocation to emerging market debt. It also represented an opportunity to add to emerging equities in August in search of cheaper valuations. At the time, we were neutral on duration; we believed that the upside to nominal bonds was limited but that central banks would be successful in maintaining a low volatility regime in rates markets thereby limiting tactical trading opportunities.

The portfolio benefited from a step toward a more pro-risk stance over the final quarter. Risk assets got off to a bumpy start in October amid rapidly rising infection rates and resultant lockdowns. At this point we took a cautious stance, reducing the overall equity weight. Equity markets then sharply rebounded in the first half of November as several vaccine breakthroughs sparked investor optimism that a return to economic normality was in sight. Portfolio activity reflected the uplift in sentiment; we re-risked the portfolio to participate in the equity rally, adding a position in UK large caps and topping up existing emerging markets exposure.

From a hedging standpoint, the challenge remains that most conventional portfolio hedges are looking either expensive or less efficacious. This holds true for government bonds, but we maintained some exposure to hedge against a growth disappointment in the final months of the year.

Notwithstanding the rise in Covid-19 cases in the second wave in both Europe and the US, the economic outlook has brightened over recent months. Our models have moved from recession to recovery, typically a benign phase for risk assets. Positive news on vaccine delivery brings forward hope for an end to the most acute problems of the health crisis and a return to something closer to 'normal' everyday life.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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Aviva Investors Balanced Pension Fund (the “Sub-Fund”)

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1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 8.1% (gross of fees)*. The Sub-fund's benchmark, the UK GBP 3 month LIBOR (+4%) returned 4.3% over the same period.

Review

The spread of coronavirus profoundly affected global markets in the first quarter of 2020. Equities suffered steep declines and bond markets were highly volatile. US equities declined significantly, with confirmed US cases between 4 March and 27 March rising from 150 to over 100,000. The Federal Reserve cut rates twice in the month for the first time since the global financial crisis and announced unlimited quantitative easing.

As the coronavirus outbreak spread across Asia, we reduced exposure to the equity markets directly affected, cutting emerging markets and Japan. At the beginning of March, as we were facing a global pandemic with profound economic consequences, we reduced the equity allocation further, selling European, UK and US equities, with proceeds increasing the cash weight.

The lifting of lockdown measures combined with considerable worldwide policy support, particularly from European authorities, led to a robust rally in risk assets in the second quarter. Equities delivered the largest contribution to portfolio returns. Having cut the equity allocation to help protect the portfolio, we took the opportunity to add back some exposure in the quarter. May and June saw the easing of lockdown measures spread further into Europe. At the time, Europe was our preferred market as the European Central Bank continued to support liquidity, while the prospect of fiscal coordination served to alleviate political risk. We increased our allocation to European equities as a result in June.

The impact of the Covid-19 pandemic on the global economy remained the dominant theme for markets in the third quarter. However, risk assets broadly moved higher, underpinned by a continuation of supportive monetary and fiscal policy measures. Towards the end of the third quarter, the run-up to the US election at the start of November created uncertainty and increased market volatility.

We retained a moderate level of risk over the third quarter, increasing the overall equity weight slightly. A key development during this period was the weakening of the US dollar, with the portfolio benefitting from currency translation effects of hedging US dollar exposure back into sterling. A weaker dollar helped loosen monetary conditions in emerging markets and supported our existing allocation to emerging market debt. It also represented an opportunity to add to emerging equities in August in search of cheaper valuations. At the time, we were neutral on duration; we believed that the upside to nominal bonds was limited but that central banks would be successful in maintaining a low volatility regime in rates markets thereby limiting tactical trading opportunities.

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From a hedging standpoint, the challenge remains that most conventional portfolio hedges are looking either expensive or less efficacious. This holds true for government bonds, but we maintained some exposure to hedge against a growth disappointment in the final months of the year.

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Fund Manager's Report

Performance

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Review

The spread of coronavirus profoundly affected global markets in the first quarter of 2020. Equities suffered steep declines and bond markets were highly volatile. US equities declined significantly, with confirmed US cases between 4 March and 27 March rising from 150 to over 100,000. The Federal Reserve cut rates twice in the month for the first time since the global financial crisis and announced unlimited quantitative easing.

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The lifting of lockdown measures combined with considerable worldwide policy support, particularly from European authorities, led to a robust rally in risk assets in the second quarter. Equities delivered the largest contribution to portfolio returns. Having cut the equity allocation to help protect the portfolio, we took the opportunity to add back some exposure in the quarter. May and June saw the easing of lockdown measures spread further into Europe. At the time, Europe was our preferred market as the European Central Bank continued to support liquidity, while the prospect of fiscal coordination served to alleviate political risk. We increased our allocation to European equities as a result in June.

The impact of the Covid-19 pandemic on the global economy remained the dominant theme for markets in the third quarter. However, risk assets broadly moved higher, underpinned by a continuation of supportive monetary and fiscal policy measures. Towards the end of the third quarter, the run-up to the US election at the start of November created uncertainty and increased market volatility.

We retained a moderate level of risk over the third quarter, increasing the overall equity weight slightly. A key development during this period was the weakening of the US dollar, with the portfolio benefitting from currency translation effects of hedging US dollar exposure back into sterling. A weaker dollar helped loosen monetary conditions in emerging markets and supported our existing allocation to emerging market debt. It also represented an opportunity to add to emerging equities in August in search of cheaper valuations. At the time, we were neutral on duration; we believed that the upside to nominal bonds was limited but that central banks would be successful in maintaining a low volatility regime in rates markets thereby limiting tactical trading opportunities.

The portfolio benefited from a step toward a more pro-risk stance over the final quarter. Risk assets got off to a bumpy start in October amid rapidly rising infection rates and resultant lockdowns. At this point we took a cautious stance, reducing the overall equity weight. Equity markets then sharply rebounded in the first half of November as several vaccine breakthroughs sparked investor optimism that a return to economic normality was in sight. Portfolio activity reflected the uplift in sentiment; we re-risked the portfolio to participate in the equity rally, adding a position in UK large caps.

From a hedging standpoint, the challenge remains that most conventional portfolio hedges are looking either expensive or less efficacious. This holds true for government bonds, but we maintained some exposure to hedge against a growth disappointment in the final months of the year.

Notwithstanding the rise in Covid-19 cases in the second wave in both Europe and the US, the economic outlook has brightened over recent months. Our models have moved from recession to recovery, typically a benign phase for risk assets. Positive news on vaccine delivery brings forward hope for an end to the most acute problems of the health crisis and a return to something closer to 'normal' everyday life.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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Aviva Investors Continental European Equity Alpha Fund (the “Sub-Fund”)

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund aims to grow your investment over the long term (5 years or more) by investing in shares of European companies. In the Value Assessment published in April 2020 the Board noted that the Sub-fund’s performance since launch was at the lower end of the range of expected outcomes for an actively managed fund and detailed changes that had been implemented to the Investment team’s resources and investment philosophy.

Whilst the Sub-fund has produced positive returns in each year since launch, and there have been some improvements in performance over the last 12 months, these changes have not yet had the desired impact on the Sub-fund’s overall performance, which can in part be attributed to the impact of the Covid-19 pandemic, and the subsequent lockdown measures that were introduced to slow it, which interrupted normal economic activity.

Therefore, the Sub-fund’s performance relative to its investment objectives, policy and strategy remains at the lower end of the range of expected outcomes for an actively managed fund over the period since launch. As a result, the Board considers that performance should be monitored more closely to ensure the Sub-fund can continue to deliver value to investors. Any proposed actions identified by this review will be announced in due course.

The Board is also aware of the decision by Aviva plc to sell the Aviva France business to Aéma Groupe. The impact on the Aviva Investors France investment team, and hence the management of the Sub-fund that may occur as a result of this transaction, will be closely monitored by the Board to ensure that any changes are in the interests of investors in the Sub-fund.

A detailed explanation of the last 12 months performance is included in the Fund Manager’s Report below.



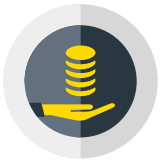
3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

Past performance is not a guide for future performance, the value of your investment can go down as well as up and you may not get back the amount invested.

Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 5.40%* (gross of fees). The Sub-fund's benchmark, the FTSE® World Europe (ex UK) index, returned 8.34% over the same period.

Review

Over 2020, European markets were significantly disrupted. Covid-19's spread throughout the continent, and the subsequent lockdown measures that were introduced to slow it, interrupted normal economic activity; this was reflected in early-year market performance. In quarter one, equities fell sharply as investor sentiment was damaged by the initial implementation of lockdowns. Meanwhile, the Euro area went into a recession, reporting a GDP contraction for quarter one and two. Since then, central banks have implemented massive fiscal and monetary policies to stimulate economic activity and support markets. The easing of lockdown restrictions also aided recovery and, over quarter three, Euro-area GDP grew by a record 12.5%. Hopes for economic recovery, strong support from central banks, and positive news on the rollout of a vaccination for the virus aided market recovery to the end of the year. However, this recovery was hindered by the discovery of a new, more quickly spreading variant of the virus and fears over the reintroduction of lockdown restrictions.

Within European markets, the technology and basic materials sectors were among the top performers. They were supported by increased consumer demand for technology and rising precious metal prices, respectively. The renewable utilities sector also performed well and benefited from the increasing popularity of sustainable investing and high retail investor activity. On the other hand, airlines and oil companies were among the worst performers; both were hit hard by a reduction in demand due to lockdown travel restrictions.

The portfolio is dominated by European equities. In comparison to the benchmark FTSE World Europe Ex UK Index, we held overweight positions in technology and industrials, and underweight positions in consumer services, financials, telecommunications, and utilities. The main contributor to fund performance relative to the benchmark was stock selection in basic materials, while positioning in health care stocks also contributed. Meanwhile, stock selection in consumer goods and industrials detracted.

Within sectors, the top contributors to performance relative to the benchmark were life sciences company Qiagen, semiconductor equipment company ASML Holding, and renewable and oil product provider Neste OYJ. The main detractor from fund performance was our overweight holdings in aircraft manufacturer, Airbus; the company was hit hard as lockdown restrictions prevented international travel, which subsequently reduced demand for aircraft. Oil and gas technologies company TechnipFMC also detracted.

Outlook

The longer-term outlook for European equities remains difficult to predict. In the short to medium term, the discovery of the new virus variant and the reintroduction of lockdown restrictions will likely slow the economic recovery. But, at the same time, the rollout of a vaccine may support investor confidence, allow a quicker return to some form of pre-virus normality, and inspire further market growth. Strong support through central bank policies will also aid markets in the short run, but eventually governments will need to cut costs to reduce debt levels. For the foreseeable future, market performance will be heavily reliant on how these factors change. But we believe further growth in European equities is likely in the short-term. However, due to the unpredictable nature of the factors at play, it is very hard to predict market outlook in the long run. Therefore, it is important that we continue to select high-quality firms that can generate a return through any market volatility that may arise.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see avivainvestors.com/value-assessments) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

Past performance is not a guide for future performance, the value of your investment can go down as well as up and you may not get back the amount invested.

Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 6.7% (net of fees)*. The Sub-fund's benchmark, the 3M LIBOR +2.5% returned of 3.31% over the same period.

Review

The spread of Covid-19 profoundly affected global markets in the first quarter of 2020. Over the period, the economic impact of measures to mitigate the spread of the virus emerged. Risky assets first declined sharply in February, and the fall intensified in March. We reduced the equity allocation gradually in the first two months of the year and further in March, selling US and UK equities, and increasing the cash weight. The allocation to government bonds initially served to cushion losses elsewhere, but their effectiveness as a hedge began to wane as investors prioritised liquidity. Therefore, we trimmed the allocation in March, further increasing cash.

In the second quarter, the lifting of lockdown measures combined with considerable worldwide policy support, particularly from European authorities, led to a robust rally in risk assets. We focused our portfolio activity on strategies that benefit from a liquidity-driven environment, while tactically positioning for opportunities emerging from the easing of lockdown measures over the summer months. We took the opportunity to add back some exposure to equity in the second quarter, gradually increasing the core holdings in our active global equity strategies. Within fixed income, our preference was for higher carry markets, maintaining our bias to UK corporates given the more attractive yield on offer.

The impact of the pandemic on the global economy continued to be the dominant theme for markets in the third quarter. However, risk assets broadly moved higher, underpinned by a continuation of supportive monetary and fiscal policy measures. Towards the end of the third quarter, the run-up to the US election at the start of November created uncertainty and increased market volatility.

In the third quarter, we added to our equity exposure by topping up our global equity basket since we expect a continued recovery across global economies. We rotated our UK equity allocation into US large cap equities, as we expect that liquidity support and a slow recovery will support the US market. In fixed income, we continue to lower our exposure to gilts due to Brexit uncertainty and increasing risks of Covid-19.

The portfolio benefited from a step toward a more pro-risk stance over the final quarter. Risk assets got off to a bumpy start in October amid rapidly rising infection rates and resultant lockdowns. At this point we took a cautious stance, reducing the overall equity weight. Equity markets then sharply rebounded in the first half of November as several vaccine breakthroughs sparked investor optimism that a return to economic normality was in sight. Portfolio activity reflected the uplift in sentiment; we re-risked the portfolio to participate in the equity rally.

From a regional perspective, we reduced our US equity position, rotating the profits into global equities since we expect the gradual, post-COVID normalisation to continue. We sold our underweight positions in Europe and UK equities, on the back of the announcement of further quantitative easing from the European Central Bank, as well as the Brexit trade deal. In fixed income, returns were positive and our allocations were left broadly unchanged, maintaining our preference to higher quality UK credit. Notwithstanding the rise in Covid-19 cases in the second wave in both Europe and the US, the economic outlook has brightened over recent months. Our models have moved from recession to recovery, typically a benign phase for risk assets. Positive news on vaccine delivery brings forward hope for an end to the most acute problems of the health crisis and a return to something closer to 'normal' everyday life.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of fees, net of income reinvested.

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned -8.2%* (gross of fees). The Sub-fund's benchmark, the FTSE® All Share ex Tobacco Total Return Index, returned -9.8% over the same period.

Review

The portfolio strongly outperformed the FTSE Custom All-Share ex Tobacco index by 1.6% in 2020. UK equities fell sharply in March as the coronavirus pandemic caused the fastest decline in global financial markets on record. Equity markets have staged a recovery from their lowest point in March following the significant monetary and fiscal responses to Covid-19 from governments and central banks and positive vaccine news emerging in November. However, the UK equity market is still 9.8% below its starting point in 2020.

The top contributors to performance came from a range of companies where we have built conviction positions. These included retailer Pets at Home, which has strong sales growth in pet care and veterinary services, alongside continued investment in its omni-channel capacity. Additionally, life insurer Legal & General, mining group BHP and consumer goods company Unilever also performed strongly.

An uptick in corporate activity in the second half of the year provided a catalyst for the market to begin to recognise some of the mispricing that we see in our portfolio companies. Security services firm G4S and bookmaker William Hill were both bid for. We sold William Hill after its board approved a bid from Caesars. We await further developments on G4S's competing bids from North American rivals GardaWorld and Allied Universal, but have pared our holding back as the shares are currently trading above the recommended Allied Universal offer price. We had supported both G4S and William Hill when the pandemic first hit; through increasing our position size and equity issuance respectively.

Challenging trading conditions in the wake of Covid-19 materially impacted some of our mid-sized holdings that have weaker balance sheets including Capita and Firstgroup, as well as the domestic bank Lloyds Banking Group. Capita and Firstgroup were both looking to dispose of assets to improve their financial position and this was challenging when capital markets ground to a halt during the pandemic.

New holdings in the portfolio include those that could benefit from infrastructure spend, such as US building products distributor Ferguson, construction company Balfour Beatty and diversified miner Anglo American. We are also interested in companies exposed to efforts to reduce climate change and facilitate energy transition. Infrastructure group John Laing, a long-standing holding, is an example here together with new portfolio additions power firm Drax Group and utility National Grid. We financed these purchases largely from sales of oil majors and banks where we took decisive action early in the crisis to sell companies where Covid-19 brought on fundamental concerns.

Positive vaccine news has been a shot in the arm for markets since November as optimism for the future outweighed the near-term negatives of surging Covid caseloads, tighter restrictions, and hits to economic activity. The short-term environment will remain tough for consumers and corporates, effective vaccination should lead to a rollback of restrictions and a release of pent-up demand. This of course assumes that the vaccine rollout programme progresses smoothly with regards distribution, take-up, and efficacy despite viral mutations.

Despite this strong recovery in the fourth quarter of 2020, UK equities on aggregate lagged returns elsewhere over the course of the year. The UK market has higher exposure to sectors such as energy and banking, which have significantly underperformed this year, and has a smaller technology sector. In addition, Brexit uncertainty has continued to weigh on sentiment and though the UK struck a trade deal on goods with the EU at the end of the year, it will take time for businesses to adjust. As a result, valuations remain at a significant discount to other markets. This valuation appeal of quoted UK companies does, however, continue to attract interest from acquirers both corporate and private equity and we expect this to continue into 2021.

The portfolio consists of a blend of lowly valued domestic stocks, such as life insurance business Legal and General, supermarket Tesco and Premier Inn owner Whitbread, as well as market-leading international businesses trading at a material discount to their global peers. These include defence business BAE Systems, luxury goods firm Burberry and life insurance business Prudential. With an economic recovery emerging during 2021 as vaccination rollout covers the more vulnerable in society, allowing the lifting of restrictions and the resumption of more normal life, companies are likely to have greater confidence to reinstate guidance, resume investment activities and make dividend payments.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund aims to grow your investment over the long term (5 years or more) by investing in shares of European companies, excluding the UK. In the Value Assessment published in April 2020 the Board concluded that the Sub-fund’s performance since launch was at the lower end of the range of expected outcomes for an actively managed fund. The Board also noted that the European investment environment had been unfavourable for value strategies in recent years but was supportive of the Investment Manager’s continued management of the Sub-fund.

Over the year to 31 December 2020 the Sub-fund’s performance has improved as “value” stocks have begun to come back into favour, with annual returns of 8.72% (net of fees)*, and average annual growth of 8.45% (net of fees)* since launch, which is in line with the FTSE® Developed Europe (ex UK) Total Return Index. This improved performance has been achieved despite the challenges faced throughout 2020 due to the Covid-19 pandemic.

The Board therefore believes that the improvements in performance over the last year indicate that the Investment Manager’s continued management of the Sub-fund is in the best interests of investors. However, the Sub-fund’s performance will remain under review as part of our ongoing fund governance process.

A detailed explanation of the last 12 months performance is included in the Fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged.

There has not been a material change in the size of the Scheme during the previous 12 months, however the AUM of the Sub-fund has increased but this does not impact fees, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 8.4% (gross of fees). The Sub-fund's benchmark, the FTSE® Developed Europe (ex UK) index, returned 8.9% over the same period.

Review

A key notable detractor to performance was aerospace corporate Airbus where shares had more than halved by early spring as air travel globally collapsed due to the Covid-19 pandemic. Prospects for the business prior to the virus were bright in our view given an extensive order backlog and Boeing's difficulties with the 737 MAX airline. The aerospace and defence sector was a notable laggard in the first half of the year and the portfolio's exposure to Thales and Leonardo as well as Airbus was a drag on relative performance. We expect defence spending to remain resilient but the downturn in civil aviation where Thales and Leonardo have some has weighed on profitability. Upon re-examining the investment case for these issuers, we retained our holding in Thales but exited our holdings in Airbus and Leonardo. Thales in our view was best placed to benefit from a recovery in economic activity.

Portfolio performance steadily improved through the year before the portfolio struggled to keep up with the sharp market rally in November when equity markets turned bullish on news of the Pfizer vaccine announcement. Positioning in financials weighed on returns in this period, notably our lower weighting in Eurozone banks compared to the benchmark. Some of the eurozone's largest lenders saw share price gains of 40% or more on hopes of economies re-opening. We do have exposure banking sector exposure in the fund but we favour Nordic banks of proven quality with strong balance sheets. However, we were pleased to see 11 holdings in the portfolio post gains of over 25% in the month of November highlighting that the portfolio is nicely balanced between styles and sectors

The top positive contributors at the stock level included Dutch listed semi-conductor holding ASM International and Finland listed Neste who are one of the world's leading provider of renewable diesel and sustainable aviation fuel. Both businesses are market leaders in their respective sectors and offer long term structural growth prospects which the market has rewarded handsomely over the last 12 months.

Steelmaker ArcelorMittal is a holding we initiated after the sharp spring drawdown. The shares are up over 200% from their lows and the stock was among the top contributors to portfolio returns in the second half of the year. Demand for steel is picking up, especially in China. Arcelor produces much of the iron ore that it requires, helping on the input cost side. We expect earnings to grow as volumes and prices rise. Arcelor has said excess cash flows will be handed back to shareholders

Looking ahead, the ongoing pandemic clearly represents a risk for many parts of the market. However, increased stimulus – from governments and central banks – is continuing to underpin equities. Stimulus measures are combining with economic recovery and a reconfiguration of supply chains as companies seek more local suppliers. This is leading to rising producer prices. Prices of pulp and some chemicals were up 20% or more in Q4 with metals prices rising too. Rising prices tend to favour more lowly-valued parts of the market, which have been left behind in recent years. We could see a rotation into these kinds of stocks, particularly those in the materials sector that are aligned to the commodity cycle. This is not to say that we expect value to outperform at the expense of growth: there are still structural growth opportunities in areas such as technology and green energy. But we think it could be the start of more balance returning to the market.

Elsewhere, as of early January it has been confirmed that the Democrats will take control of the US House and Senate. This will make it easier to pass President elect Biden's legislative agenda, which could mean more fiscal stimulus and a greater emphasis on the "green" agenda. It may also have implications for drug pricing; within healthcare we continue to favour life sciences and medical technology over pharmaceutical firms.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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1. Quality of Service

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2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

Past performance is not a guide for future performance, the value of your investment can go down as well as up and you may not get back the amount invested.

Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 20.3% (gross of fees)*. The Sub-fund's benchmark, the MSCI® World NDR Total Return GBP Index, returned 12.3% over the same period.

Review

The story of 2020 was largely dictated by the catastrophic impact of the Covid-19 pandemic. Early in the year, the stock markets reacted to the global pandemic and implications for economic growth as a consequence of efforts to mitigate its spread. Central banks and governments around the world announced huge and unprecedented policy measures to support business and households and reduce borrowing costs. While the crash was unusually severe in a historical context, the recovery was equally extraordinary as markets rallied in the second and third quarters to recover share price losses by August. A resurgence in the virus in many parts of world curbed the recovery in September and October, however the news in November that a number of vaccines had proven effective against the virus led global equities to finish the year strongly. The US Presidential elections, trade wars and Brexit, amongst other events ordinarily be considered material, were largely overshadowed.

Against this backdrop, the portfolio strongly outperformed over 2020. Our sector and regional positioning contributed positively, as did a significant bias to high quality compounders which benefitted to operating and financial resilience throughout the year. Names such as Amazon, Adobe and Tencent exemplifying these traits. Our industrials stocks were strongest. Vestas Wind in particular added to relative returns buoyed by efforts to mitigate climate change. Our communication services holdings were also significant contributors. Many of these companies were beneficiaries to the lifestyle changes the pandemic brought as populations switched to remote working and embraced social media platforms and online gaming. Our consumer discretionary stocks however detracted in aggregate. Similarly, our persistent underweights to Apple and Tesla throughout the year weighed significantly on relative returns as investor exuberance led to significant increases in the share prices of both stocks. All regions posted positive excess returns, led by continental Europe and North America.

Positive news and significant progress in the development and roll-out of mass vaccination against Covid-19 has transformed the economic and market outlook. For the first time in nearly a year there is now a line of sight for recovery and the resumption of some sort of normality. It is now more certain that the global economy will start to normalise through CY 2021. In the near term, however, risks remain that further incidence of the virus could continue to undermine the speed of the recovery and investor sentiment, in particular the discovery of a more infectious mutation of the virus in the UK. Unemployment levels look set to rise again as government job support schemes start to be wound down and companies toil from both the effects of the virus and long term structural change in consumer behaviour and the competitive landscape. Structural imbalances will be severe and will not be easily remedied by the action of central banks. Looking beyond the short term challenges, we expect a recovery to see a significant broadening of the equity market in 2021. Technology can still do well, but some of the un-loved areas may do better still. Investors have begun to look at the potential for revenue and earnings growth in many "out-of-favour" areas that suffered during the pandemic. It seems highly plausible that when the recovery takes hold many of these businesses will experience a sharp rebound. In addition, expectations in cyclical sectors such as energy, materials or industrials are low and merit consideration. For many, even a moderate pick-up in global demand in 2021 will drive significant revenue and profit growth. Regionally, we also expect to see the dominance of the US challenged given the potential for a significant profit recovery in other regions.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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Aviva Investors Global Equity Fund (the “Sub-Fund”)

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see avivainvestors.com/value-assessments) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 22.7% (gross of fees)*. The Sub-fund's benchmark, the MSCI® World NDR Total Return GBP Index, returned 10.4% over the same period.

Review

The story of 2020 was largely dictated by the catastrophic impact of the Covid-19 pandemic. Early in the year, the stock markets reacted to the global pandemic and implications for economic growth as a consequence of efforts to mitigate its spread. Central banks and governments around the world announced huge and unprecedented policy measures to support business and households and reduce borrowing costs. While the crash was unusually severe in a historical context, the recovery was equally extraordinary as markets rallied in the second and third quarters to recover share price losses by August. A resurgence in the virus in many parts of world curbed the recovery in September and October, however the news in November that a number of vaccines had proven effective against the virus led global equities to finish the year strongly. The US Presidential elections, trade wars and Brexit, amongst other events ordinarily be considered material, were largely overshadowed.

Against this backdrop, the portfolio strongly outperformed over 2020. Our sector and regional positioning contributed positively, as did a significant bias to high quality compounders which benefitted to operating and financial resilience throughout the year. Names such as Amazon, Costco, Adobe and Tencent exemplifying these traits. Our exposure to stocks benefitting from structural growth drivers also helped. Battery manufacturer, Samsung SDI and wind turbine supplier, Vestas Wind, were strong performers buoyed by efforts to mitigate climate change. Our technology and communication services holdings were also significant contributors. Many of these companies were beneficiaries to the lifestyle changes the pandemic brought as populations switched to remote working and embraced social media platforms and online gaming. Conversely, exposure to areas of the economy most adversely affected by Covid-19, for example in leisure, travel and luxury detracted alongside banks, which generally struggled in light of the challenging economic and operating environment. Similarly, our persistent underweights to Apple and Tesla throughout the year weighed significantly on relative returns as investor exuberance led to significant increases in the share prices of both stocks. All regions posted positive excess returns, led by continental Europe and North America.

Positive news and significant progress in the development and roll-out of mass vaccination against Covid-19 has transformed the economic and market outlook. For the first time in nearly a year there is now a line of sight for recovery and the resumption of some sort of normality. It is now more certain that the global economy will start to normalise through CY 2021. In the near term, however, risks remain that further incidence of the virus could continue to undermine the speed of the recovery and investor sentiment, in particular the discovery of a more infectious mutation of the virus in the UK. Unemployment levels look set to rise again as government job support schemes start to be wound down and companies toil from both the effects of the virus and long term structural change in consumer behaviour and the competitive landscape. Structural imbalances will be severe and will not be easily remedied by the action of central banks. Looking beyond the short term challenges, we expect a recovery to see a significant broadening of the equity market in 2021. Technology can still do well, but some of the un-loved areas may do better still. Investors have begun to look at the potential for revenue and earnings growth in many "out-of-favour" areas that suffered during the pandemic. It seems highly plausible that when the recovery takes hold many of these businesses will experience a sharp rebound. In addition, expectations in cyclical sectors such as energy, materials or industrials are low and merit consideration. For many, even a moderate pick-up in global demand in 2021 will drive significant revenue and profit growth. Regionally, we also expect to see the dominance of the US challenged given the potential for a significant profit recovery in other regions. .

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months to 31 December 2020, the Sub-fund returned 11.14%* (gross of fees). The Sub-fund's benchmark, the FTSE® UK Index-Linked All Stocks Index, returned 11.01% over the same period.

Review

Index-linked gilts posted strong returns in 2020. There were two fundamental drivers of performance. The first was a surge in demand for so-called 'safe haven' assets as economies reeled under the shock of the coronavirus outbreak and the lockdown restrictions that accompanied it. The second was the massive central bank response to the pandemic, which saw interest rates cut to historic lows around the world and bond purchasing schemes upgraded. In the UK, interest rates were cut in March to a record low of 0.1%. The Bank of England (BoE) also boosted its buying of gilts and corporate bonds via the quantitative easing programme to the tune of £450 billion, taking the overall purchasing target to £475 billion. This helped to support the market as it absorbed much of the flood of new issuance as the government sought to fund its expensive loan, grant and furlough schemes amid the economic shutdown. For index-linked gilts, gains were concentrated in the second quarter, when investors upgraded their inflation expectations from exceptionally low levels on hopes that the global economy would recover more quickly than had been anticipated. Index-linked gilts outperformed their conventional equivalents as fixed income assets with a longer maturity profile profited from anticipation that monetary policy would be kept looser for longer.

In November, inflation-linked investors finally heard from the government on the outcome of RPI reform. The result was that reform will go ahead from February 2030 and month-on-month growth from that date will be equal to that of CPI-H (consumer prices plus housing costs). No compensation was offered to bondholders. This was an event the market had been anticipating for more than a year and, with it finally having passed, investors finally had some respite, despite the lack of liquidity it had caused. The initial reaction saw index-linked bonds outperform their nominal counterparts. This was especially the case for bonds with longer-maturities as the real yield curve flattened.

The Fund performed well in absolute and relative terms in a year in which developed market sovereign yields tumbled as a result of the economic damage caused by the coronavirus pandemic. The biggest contributor to the outperformance over the year was the long duration position in gilts and US Treasuries, which benefited from heavy investor demand for safe-haven assets as the market priced in massive stimulus needed from central banks across the globe to support economies. Spread positions, namely being long gilts versus German bunds and long Italian spreads, once again against German bunds, also added to the outperformance. However, the biggest detractor to performance was yield curve strategies, affected by the uncertainty around RPI reform. Our opportunistic short duration position also weighed on performance as lockdown measures were eased. Despite this, the Fund outperformed its benchmark over the year.

Outlook

It is possible that the current measures being employed by central banks and governments to temper the economic damage wrought by the coronavirus outbreak will support the longer-term performance of index-linked bonds. While the immediate impact of the disruption seen across the major economies is proving to be deflationary, there is a growing consensus that inflation expectations are more likely to bounce back given central banks' willingness to tolerate higher inflation to an extent. Indeed, there has been speculation that the BoE could take a more pragmatic stance and switch its policy objective from inflation control to growth targeting as it strives to lift the economy out of what could be a period of low growth.

In the short term, much will depend on how quickly mass vaccinations can return life to normal. If growth rebounds more quickly than anticipated, then inflationary pressures could well build rapidly. However, if lockdowns have to be reinstated for an extended period as the vaccination programme either fails or is delayed, not just domestically but also in the UK's trading partners, the risk of a prolonged period of disinflation increases.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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195625 - 30/04/2022

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned of 14.90% (net of fees)*. The Sub-fund's benchmark, the FTSE® World Japan Total Return Index, returned 11.07% over the same period.

Review

The Japan equity market started 2020 with a substantial sell off in the first quarter. As the number of confirmed Covid-19 cases spread beyond China, investors turned their attention to the global economic impact of the pandemic. However, the Japan equity market rebounded from the third week of March. The rapid market turnaround was triggered by substantial market liquidity provided by monetary authorities around the world and boosted by fiscal stimulus policies on an unprecedented scale. Support also came from the slowing rate of new Covid-19 cases in many countries, while news of potential pharmaceutical treatments or vaccine developments have helped market participants to look beyond the near-term weakness. The Japan equity market extended its gains in the second half of this year as the quarterly results from Japanese companies showed that earnings had clearly bottomed out from the first half of 2020. Improving investor sentiment is benefiting holdings with steady earnings growth prospects amid unclear business conditions. Leading electronic component and semiconductor manufacturing equipment producers suggested a steady demand outlook and the rally in these stocks led the overall market upturn. While the number of new Covid-19 cases continued to rise worldwide, the pandemic appeared to have been contained in Japan, which helped to underline the relatively stable economic conditions and corporate earnings prospects of Japanese companies.

For the review period ending December 2020, the portfolio outperformed the benchmark index by 383 basis points (bp) returning 14.90% against the FT Japan index return (GBP terms) of 11.07%. As a result of the temporary market crash at the beginning of the global Covid-19 pandemic, the portfolio underperformed the benchmark by a wide margin for the first quarter of 2020. However, these losses were later recouped over the following quarters as market sentiment bottomed out with the help of accommodative monetary and fiscal policies worldwide. Our focus on those companies that offered better earnings prospects based on fundamental analysis also worked positively and resulted in a large contribution from stock selection during the market's recovery phase. The following companies were able to maintain their competitive advantage amid weakening global demand conditions and contributed to the relative performance. Daifuku is the world's leading equipment supplier for logistics systems. Demand from electronics and e-commerce businesses worldwide helped the company to achieve solid profit growth. Fast Retailing, which produces casual clothing under the "UNIQLO" brand, soared in reaction to a strong recovery in earnings prospects, which had slumped at the beginning of the year. Its focus on functionality and minimal design, in addition to low prices, were well received by an increasing number of customers in Asian countries; which appeared to drive the re-rating of its valuations. Global demand for multi-layer ceramic capacitors (MLCC) has been expanding for applications such as smartphones and passenger cars. These trends supported the earnings growth and share price performance of leading MLCC producers such as Murata Manufacturing held in the portfolio.

Assuming the rollout of vaccination programs can successfully contain the Covid-19 pandemic, then we could see a worldwide economic turnaround from the latter half of 2021. On the premise that the vaccines are also effective against the new coronavirus strains, following an early start to vaccinations in the US and Europe, the number of new cases in Japan is also expected to start declining when the vaccines reach the general population from the middle of this year. Given the likely delay in achieving herd immunity, the process of economic normalisation in Japan could be delayed until the second half of this year given the current worsening of the pandemic situation. Nevertheless, we believe the recovery in the Japanese economy will accelerate thereafter amid a rebound in service and transport industries, such as hotels, restaurants and airlines; which have been the most severely hit by the containment measures.

Outlook

However, we cannot assume that the shift in working lifestyles and consumer behaviour brought about by the pandemic will return to how they were before the pandemic. For example, the practice of accessing cloud-based systems from home instead of commuting to the office daily appears to have taken root to some extent in many organisations. E-commerce and video streaming services, which have significantly increased their market penetration in 2020, are forecast to see continued high demand. Growing awareness of environmental issues is another new structural trend. Under the incoming Biden administration, America will re-join the Paris agreement, while the Japanese government has adopted a target to cut net carbon emissions to zero by 2050. The increasing cost of environmental compliance is likely to weigh on earnings among traditional industries that remain dependent on fossil fuels such as steel, automotive, energy and electric power companies. Considering this new set of conditions, the expanding divergence between industries that has accelerated over the past year, could take a while longer to be resolved.

Meanwhile, the strong global equity market rally since late March 2020 is factoring in a future recovery in corporate earnings, to some extent fueled by the enormous monetary support from central banks. We maintain our existing market outlook that the current slightly overstretched valuations will be justified by a turnaround of corporate earnings to pre-pandemic levels within a few years. However, the financial markets could remain volatile in the short-term as investors allow for various scenarios towards future economic normalisation. Central banks are expected to keep their accommodative policy stance throughout 2021, but if the economy sees a substantial recovery once the pandemic risk has diminished, then long-term interest rates could rise temporarily to reflect an eventual tapering process. In such cases, a reversal of the significantly reduced equity risk premium under the current zero-interest rate environment could put pressure on equity valuations.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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1. Quality of Service

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2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

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6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 10.0% (gross of fees)*. The Sub-fund's benchmark, the TOPIX® TR GBP Index, returned 9.6% over the same period.

Review

After the pandemic-related market shock in the first quarter of 2020, Japanese equities recovered in line with global markets to record a total return of 7.4% for the year as a whole. The yen was volatile against sterling, especially in the first quarter of the year. Across the 12 months there was a net strengthening of the yen, which improved the total return for a sterling-based investor to 9.6%. The portfolio rose by more than the benchmark.

All the available data shows that Japan's experience of Covid-19, in terms of incidence and mortality, continues to be markedly different from the US and Europe. However, during 2020, Japan's equity market reacted mainly to global factors, together with announcements of stimulus measures, changes in consumer behaviour and vaccine-related news flow in the fourth quarter. While the absolute levels of virus infection in Japan remained significantly below other developed countries, there was still some pick-up towards the end of the year, leading to further public criticism of government policy. During December, these concerns began to impact on the popularity of new Prime Minister Suga and ultimately led to the suspension of government-led campaigns aimed at encouraging domestic travel and consumption. By the end of the year it was becoming increasingly likely that a state of emergency could be re-imposed for the first time since May, although even this would imply significantly lighter restrictions than those seen in Europe.

Although the portfolio performed relatively well for the full year, there was some underperformance during the period of greatest market turmoil in February and early March. This was gradually recouped over the subsequent 9 months to leave the fund ahead for the year as a whole. Although some developed markets did see some style reversal later in 2020, this effect remained very muted in Japan. In addition, although some small-cap growth stocks were very strong, small caps in aggregate lagged the broad market, with particularly steep underperformance in February and November.

The largest positive contribution for the portfolio came from Daifuku, which manufactures material handling systems, including automated warehouse systems. We held the stock for its long term growth potential but, from early 2020, the company was perceived as a potential beneficiary of changing consumption patterns. Keyence, which manufactures sensors and measuring instruments for factory automation, followed a similar trend during the year. Overall high quality cyclical stocks with specific growth drivers, such as Keyence, JSR, Nifco, and Toyota Industries, added value to the fund thanks to stronger earnings prospects during both the pandemic and the expected recovery phase.

The largest negative impact for the year came from Sankyu, a specialist in logistics and plant engineering. The stock has underperformed consistently in 2020 on fears that major industrial customers may cut back on maintenance spending. Japan Airlines underperformed sharply in the early stages of the pandemic. The stock was sold from the fund after this initial weakness as we felt longer term business prospects had also been impaired. The stock subsequently underperformed further after the sale, but the negative contribution from the first quarter remained significant. Market dynamics also resulted in several negative impacts from a range of large cap stocks that are not held in the portfolio, the most significant of which were Sony and Nintendo.

In a volatile year, there were opportunities to switch some holdings in the portfolio, but no change was made to the overall strategy. The most important additions to the portfolio were Daikin, the global air conditioning supplier, and NOF, which supplies a wide range of chemical products. In addition, we purchased a number of mid to small cap stocks in which we have high conviction on earnings growth over the next few years.

Both Japan Airlines and HIS, a major travel agency, were sold as we felt their long term prospects were impaired by changes in consumer behaviour triggered by the pandemic.

Japan Tobacco was also sold early in 2020, partly due to our view of some recent strategic missteps and partly on our view of long-term sustainability of the tobacco business.

In the absence of dramatic deterioration in economic conditions, we now see scope for a significant recovery in corporate earnings in fiscal year 2021, supported by the most recent corporate results announcements which showed solid discipline on cost control. The overall revision index remains positive which should bode well for corporate earnings prospects into 2021.

While overall market valuations look reasonable, we do note that some cyclical stocks may already be discounting much of the initial expectations for earnings recovery. But, beyond these cyclical dynamics, we continue to see positive structural tailwinds supporting the Japanese equity market, including company-specific efforts to improve Return on Equity. Despite the challenging environment in 2020, Japanese companies are continuing to increase spending on IT and software, in particular, in order to improve future productivity.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



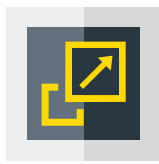
2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

Past performance is not a guide for future performance, the value of your investment can go down as well as up and you may not get back the amount invested.

Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned of 0.31% (gross of fees)*. The Sub-funds benchmark, the 7-day London Interbank Bid Rate (LIBID), returned of 0.06% over the same period.

Review

Back in January, Covid-19 was a regional virus, and few predicted that it would be the cause of an unprecedented and extremely challenging 2020 for people, businesses and economies. The crisis has also been a tumultuous experience for investors as it forced the global economy into its deepest recession in peace time. There is no doubt that 2020 was a difficult year for almost everyone. A rapid rise in Covid-19 cases beyond China in March led to a sudden stop in global economic activity and a sharp selloff in financial markets.

We saw an extraordinary policy response as central banks and governments provided extreme policy measures to mitigate the economic fallout from the crisis. The Bank of England was no exception; with the base rate now at near zero for the foreseeable future, and cash rates remaining depressed.

Portfolio construction remained consistent with the primary objectives of the Fund to preserve capital and provide liquidity. We maintained our diversified portfolio by investing in high-quality commercial paper, certificates of deposit and time deposits. We held a greater preference for certificates of deposit as the year progressed, funding this increase from maturing commercial paper securities. We continue to hold a small proportion of the Fund in UK Treasury bills: this exposure varied over time, ending the year at 1.2%.

As the low interest rate environment continues, the weighted average maturity (WAM) of the portfolio increased in order to maintain a yield advantage over 7-day LIBID. Overall, given the depressed levels of yields at the short-end of the UK market, we are likely over the next quarter to move slightly further up the yield curve where we see more attractive yield levels. The WAM increased towards the end of the year, with WAM at the end of December increasing to 53 days.

Covid-19 case growth dominated news flow at the start of the year but encouragingly, rapid vaccine discovery and the start of immunizations has helped lift sentiment into year-end. We expect virus spread to slow growth over the winter months before economic recoveries reaccelerate in the spring as mass immunizations allow the job-rich services sector to recover. Added growth supportive factors include accommodative macro policies and limited evidence of permanent economic scarring. We expect this cyclical uplift to support search-for-yield motives and risk sentiment in 2021.

From a portfolio perspective we will continue to allocate to high-quality issuers in order to achieve our objectives of capital preservation and liquidity whilst maximising the portfolio's yield within the constraints of the investment guidelines.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

Aviva Investors North American Equity Fund (the “Sub-Fund”)

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see avivainvestors.com/value-assessments) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund aims to grow your investment over the long term (5 years or more) by investing in shares of companies in North America. In the Value Assessment published in April 2020 the Board noted that the Sub-fund’s performance since launch was at the lower end of the range of expected outcomes for an actively managed fund. This led to changes to the investment personnel who manage the Sub-fund and amendments to the Sub-fund’s investment philosophy, including an increase in the number of investments to create a more diversified portfolio, albeit within the requirements of the stated investment objective and policy.

Following these changes, and specifically over the last year, the Sub-fund has outperformed the FTSE® North America Total Return GBP Index (+3.7%*) and the value of the Sub-fund has increased at an annual rate of 17.5% (net of fees)* over the last 5 years. Consequently, for the year to 31 December 2020, the Sub-fund’s performance after charges was deemed to be within a reasonable range of outcomes relative to its investment objective, policy and strategy.

The Board therefore believes that the improvements in performance over the last year indicate that the changes made to the investment personnel and philosophy have had a positive impact, and the Sub-Fund is better positioned to deliver against its stated objective over the longer term.

A detailed explanation of the last 12 months performance is included in the Fund Manager’s Report below.



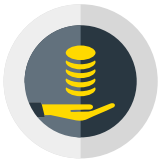
3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 20.8% (gross of fees)*. The Sub-fund's benchmark, the FTSE® All World North America returned 16.5% over the same period.

Review

The story of 2020 was largely dictated by the catastrophic impact of the Covid-19 pandemic. Early in the year, the stock markets reacted to the global pandemic and implications for economic growth as a consequence of efforts to mitigate its spread. Central banks and governments around the world announced huge and unprecedented policy measures to support business and households and reduce borrowing costs. While the crash was unusually severe in a historical context, the recovery was equally extraordinary as markets rallied in the second and third quarters to recover share price losses by August. A resurgence in the virus in many parts of world curbed the recovery in September and October, however the news in November that a number of vaccines had proven effective against the virus led global equities to finish the year strongly. The US Presidential elections, trade wars and Brexit, amongst other events ordinarily be considered material, were largely overshadowed.

Against this backdrop, the portfolio strongly outperformed over 2020. Our sector positioning contributed positively, as did a significant bias to high quality compounders which benefitted to operating and financial resilience throughout the year. Names such as Amazon and Adobe exemplifying these traits. Our industrials stocks were strongest. Deere and Rockwell Automation in particular performing well over the year. Our technology and communication services holdings were also significant contributors. Many of these companies were beneficiaries to the lifestyle changes the pandemic brought as populations switched to remote working and embraced social media platforms and online gaming. Conversely, exposure to areas of the economy most adversely affected by Covid-19, for example in leisure, travel and luxury detracted alongside banks, which generally struggled in light of the challenging economic and operating environment. Similarly, our persistent underweights to Apple and Tesla throughout the year weighed significantly on relative returns as investor exuberance led to significant increases in the share prices of both stocks.

Positive news and significant progress in the development and roll-out of mass vaccination against Covid-19 has transformed the economic and market outlook. For the first time in nearly a year there is now a line of sight for recovery and the resumption of some sort of normality. It is now more certain that the global economy will start to normalise through CY 2021. In the near term, however, risks remain that further incidence of the virus could continue to undermine the speed of the recovery and investor sentiment, in particular the discovery of a more infectious mutation of the virus in the UK. Unemployment levels look set to rise again as government job support schemes start to be wound down and companies toil from both the effects of the virus and long term structural change in consumer behaviour and the competitive landscape. Structural imbalances will be severe and will not be easily remedied by the action of central banks. Looking beyond the short term challenges, we expect a recovery to see a significant broadening of the equity market in 2021. Technology can still do well, but some of the un-loved areas may do better still. Investors have begun to look at the potential for revenue and earnings growth in many "out-of-favour" areas that suffered during the pandemic. It seems highly plausible that when the recovery takes hold many of these businesses will experience a sharp rebound. In addition, expectations in cyclical sectors such as energy, materials or industrials are low and merit consideration. For many, even a moderate pick-up in global demand in 2021 will drive significant revenue and profit growth. Regionally, we also expect to see the dominance of the US challenged given the potential for a significant profit recovery in other regions.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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195957 -30/04/2022

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

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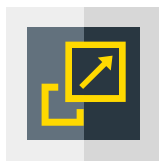
2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 10.53%* (gross of fees). The Sub-fund's composite benchmark returned 10.32% over the same period.

Review

Sterling corporate bonds posted solid gains in 2020, despite a turbulent macro-economic backdrop. The market began the year on a confident footing as China and the US signed the first phase of a long-awaited deal on trade and political uncertainty over Brexit fell following the decisive UK election result in December. In March, however, spreads widened sharply as the coronavirus spread from China to Europe, prompting governments to essentially shut down economies in a bid to contain the rate of infections. To help offset the huge hit to growth, there was a comprehensive policy response, with governments funding workers to stay at home and cutting taxes. Central banks, including the Bank of England (BoE), also took drastic measures, cutting interest rates to historic lows and pumping vast amounts of liquidity into the financial system. Corporate bonds responded well to these initiatives as they propped up confidence and gave companies access to plentiful cheap financing to help them through the crisis. While the attractiveness of borrowing conditions encouraged a surge in corporate bond issuance, the new supply was easily absorbed by income-hungry investors in an environment of ultra-low government bond yields. A sharp rise in risk appetite in November on positive Covid-19 vaccine trials enabled credit spreads to narrow back to the level they started the year.

Given the objective of the Fund to preserve capital prior to investment in an annuity, we adopt a conservative stance when managing the portfolio, taking small positions relative to the benchmark. Rather than taking risk by expressing a view on interest rate moves, we sought to add value through credit selection. Fund performance benefited from overweight exposure to industrial sectors, with good performance coming specifically from telecommunications companies such as AT&T, Comcast and Verizon. Alongside this, the exposure to financial institutions added value, thanks mainly to HSBC, Legal & General and Prudential. Other notable contributors included Connect Plus and, following improved performance during the pandemic, supermarket Tesco. The position in roadside assistance group The AA weighed on relative performance, as did Heathrow Airport, albeit to a lesser degree.

Outlook

The immediate prospects for corporate bonds hang largely on how successful planned vaccination programmes are in restoring more normal economic and social conditions. Otherwise, the market remains fairly well set. The BoE and the UK government are committed to ensuring liquidity remains cheap and plentiful, while corporate credit is also included in expanded central bank asset purchasing schemes. Furthermore, demand for the market remains very strong given reduced equity dividends and historically low government bond yields. Investors should remain mindful, however, that corporate bond valuations are now rich and that market fundamentals are fragile, with credit downgrades likely to be triggered by dips in economic data.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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192499 - 30/04/2022

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see avivainvestors.com/value-assessments) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 8.76%* (gross of fees). The Sub-fund's benchmark, the Markit iBoxx® Sterling Collateralized and Corporates Index Total Return returned 8.62% over the same period.

Review

Sterling corporate bonds posted solid gains in 2020, despite a turbulent macro-economic backdrop. The market began the year on a confident footing as China and the US signed the first phase of a long-awaited deal on trade and political uncertainty over Brexit fell following the decisive UK election result in December. In March, however, spreads widened sharply as the coronavirus spread from China to Europe, prompting governments to essentially shut down economies in a bid to contain the rate of infections. To help offset the huge hit to growth, there was a comprehensive policy response, with governments funding workers to stay at home and cutting taxes. Central banks, including the Bank of England (BoE), also took drastic measures, cutting interest rates to historic lows and pumping vast amounts of liquidity into the financial system. Corporate bonds responded well to these initiatives as they propped up confidence and gave companies access to plentiful cheap financing to help them through the crisis. While the attractiveness of borrowing conditions encouraged a surge in corporate bond issuance, the new supply was easily absorbed by income-hungry investors in an environment of ultra-low government bond yields. A sharp rise in risk appetite in November on positive Covid-19 vaccine trials enabled credit spreads to narrow back to the level they started the year.

The Fund held a broadly cautious positioning in terms of credit risk given the huge economic uncertainties that prevailed over the period. The portfolio's sensitivity to changes in interest rates was held at a level close to the benchmark. While the Fund's cautious positioning held back performance a little when the market rallied sharply in the second quarter, the avoidance of companies that were particularly sensitive to lockdowns was helpful. Selective exposure to lower-quality bonds added value and, as risk appetite recovered, the Fund was rewarded by its overweighting of lower-grade BBB-rated bonds. Other contributors to performance included the exposure to gilts, which rallied by over 8% over the year. At the industry sector level, being overweight telecoms (like Vodafone) and healthcare (like GlaxoSmithKline) was helpful. However, as international air passenger traffic slumped, the Fund's holdings in airports such as Heathrow and Gatwick detracted, although they recouped part of their losses when risk appetite rallied in the fourth quarter.

Outlook

The immediate prospects for corporate bonds hang largely on how successful planned vaccination programmes are in restoring more normal economic and social conditions. Otherwise, the market remains fairly well set. The BoE and the UK government are committed to ensuring liquidity remains cheap and plentiful, while corporate credit is also included in expanded central bank asset purchasing schemes. Furthermore, demand for the market remains very strong given reduced equity dividends and historically low government bond yields. Investors should remain mindful, however, that corporate bond valuations are now rich and that market fundamentals are fragile, with credit downgrades likely to be triggered by dips in economic data.

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192160 - 30/04/2022

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

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5. Comparable Market Rates

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6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 8.67%* (gross of fees). The Sub-fund's benchmark, the FTSE® UK Gilts All-stocks Total Return Index, returned 8.27% over the same period.

Review

Gilts posted strong returns in 2020. There were two fundamental drivers of performance. The first was a surge in demand for so-called 'safe haven' assets as economies reeled under the shock of the coronavirus outbreak and the lockdown restrictions that accompanied it. The second was the massive central bank response to the pandemic, which saw interest rates cut to historic lows around the world and bond purchasing schemes upgraded. The expectation that monetary policy would be kept looser for longer translated into particularly strong returns for longer-dated gilts. In the UK, interest rates were cut in March to a record low of 0.1%. The Bank of England (BoE) also boosted its buying of gilts and corporate bonds via the quantitative easing programme to the tune of £450 billion over the course of the year, taking the overall purchasing target to £875 billion. This helped to support the market as it absorbed much of the flood of new issuance as the government sought to fund its expensive loan, grant and furlough schemes amid the economic shutdown.

The Fund performed well in absolute and relative terms in a year in which developed market sovereign yields tumbled as a result of the economic damage caused by the coronavirus pandemic. The biggest contributor to the outperformance over the year was the long duration position in gilts and US Treasuries, which benefited from heavy investor demand for safe-haven assets as the market priced in massive stimulus needed from central banks across the globe to support economies. Spread positions, namely being long gilts versus German bunds and long Italian spreads versus German bunds, also added to the outperformance. However, despite a slight negative impact of an opportunistic short duration position as lockdown measures were eased, curve strategies performed well, with the end result being an outperformance by the Fund of its benchmark over the period.

Outlook

The measures being employed by the BoE and the government to temper the economic damage wrought by the coronavirus pandemic should continue to underpin the performance of conventional gilts. Much will depend, however, on how quickly the roll-out of vaccination programmes can enable conditions to return to a semblance of normality.

The BoE appears relatively upbeat for the prospects for the UK economy, particularly given the avoidance of the feared no-deal Brexit. It has nevertheless restated its commitment to take more aggressive measures if circumstances dictate, which means investors should not rule out the potential introduction of negative interest rates.

UK consumer inflation ended the year at just 0.6%, with the Office for Budget Responsibility not expecting it to reach the BoE's 2.0% target before at least 2025. With the Bank stating that it will not tighten policy before there is "strong evidence" that the economy is recovering sustainably, there appears to be little prospect of interest rates rising for some time yet, although the global macro environment may allow yields to rise somewhat. Overall, the outlook for the UK continues to favour the current accommodative monetary policy environment with all eyes on the rollout of the vaccine, not just domestically but also in many of the UK's trading partners.

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192408 - 30/04/2022

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1. Quality of Service

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2. Performance

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3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

Past performance is not a guide for future performance, the value of your investment can go down as well as up and you may not get back the amount invested.

Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 8.89%* (gross of fees). The Sub-fund's benchmark, the Markit iBoxx® GBP Non-Gilt Total Return Index, returned 7.80% over the same period.

Review

Sterling corporate bonds posted solid gains in 2020, despite a turbulent macro-economic backdrop. The market began the year on a confident footing as China and the US signed the first phase of a long-awaited deal on trade and political uncertainty over Brexit fell following the decisive UK election result in December. In March, however, spreads widened sharply as the coronavirus spread from China to Europe, prompting governments to essentially shut down economies in a bid to contain the rate of infections. To help offset the huge hit to growth, there was a comprehensive policy response, with governments funding workers to stay at home and cutting taxes. Central banks, including the Bank of England (BoE), also took drastic measures, trimming interest rates to historic lows and pumping vast amounts of liquidity into the financial system. Corporate bonds responded well to these initiatives as they propped up confidence and gave companies access to plentiful cheap financing to help them through the crisis. While the attractiveness of borrowing conditions encouraged a surge in corporate bond issuance, the new supply was easily absorbed by income-hungry investors in an environment of ultra-low government bond yields. A sharp rise in risk appetite in November on positive Covid-19 vaccine trials enabled credit spreads to narrow back to the level they started the year.

The Fund performed well in absolute and relative terms over the year. Having reduced risk at the start of 2020 by rotating from corporate into government bonds, the Fund was able to weather the initial shocks of the pandemic relatively well. Core holdings such as green energy provider Orsted did very well and we were able to build on this performance by investing further into other energy sector names such as SSE. The Fund was able to increase its allocation to risk as markets turned more positive and performance benefited from exposure to high-yield credits such as Virgin Media and Thames Water. Whilst during the early stages of the year the overweighting of financial institutions cost the Fund relative performance, the position subsequently contributed considerably to the Fund's returns thanks to exposure to HSBC, Prudential and AXA. Other core holdings that supported performance were Tesco and Verizon, both of which we were able to trade effectively during the year. The largest detractor was the industrial sector, with GE and tobacco names, which are not eligible for inclusion in the Fund, performing well. Not owning EDF also weighed on relative returns.

Outlook

The immediate prospects for corporate bonds hang largely on how successful planned vaccination programmes are in restoring more normal economic and social conditions. Otherwise, the market remains fairly well set. The BoE and the UK government are committed to ensuring liquidity remains cheap and plentiful, while corporate credit is also included in expanded central bank asset purchasing schemes. Furthermore, demand for the market remains very strong given reduced equity dividends and historically low government bond yields. Investors should remain mindful, however, that corporate bond valuations are now rich and that market fundamentals are fragile, with credit downgrades likely to be triggered by dips in economic data.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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192190 - 30/04/2022

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

Past performance is not a guide for future performance, the value of your investment can go down as well as up and you may not get back the amount invested.

Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 17.80%* (gross of fees). The Sub-fund's benchmark, the MSCI® World NDR Total Return GBP Index, returned 13.46% over the same period.

Review

Over the past year, global equity markets have been severely disrupted. In the first quarter, Covid-19's spread around the world, and the lockdown measures introduced to control it, prevented economies from operating as normal. Equity markets fell, reporting the steepest declines for years, and many countries entered periods of recession. Since March, global equity markets, supported by a large amount of central bank stimulus and the easing of lockdowns, have made a strong recovery. During quarter three, many countries experienced record growth in GDP. The US, for example, experienced GDP growth of 33.4% in quarter three, while a tech-stock rally drove markets to an all-time high. For the remainder of the year, equity markets continued to perform well, and were driven by the easing of lockdown restrictions, continued central bank policy support, and positive news on the rollout of a virus vaccine. But the rate of recovery has varied greatly between countries.

In markets, the basic materials and technology sectors were among the top gainers over the year. Basic materials gained as precious metal prices rose, while an increased demand for consumer electronics helped drive technology stocks higher. Online retailers fared well too, as lockdown restrictions forced consumers to shop on the internet rather than in person. Meanwhile, travel and oil stocks were hit hard by lockdown restrictions. As people were forced to stop travelling both domestically and internationally, demand for oil fell. At one point in April, this shock pushed WTI futures into negative territory.

The fund outperformed its benchmark over the period, gross of fees. In comparison to the MSCI World Index, the portfolio was overweight in industrials, financials, consumer services, and health care, and underweight in consumer discretionary, consumer staples, materials, and utilities. When compared to the benchmark, the top contributors to fund performance were the industrial, energy, and communication services sectors. The main detractors were consumer discretionary and information technology.

Individually, our overweight position in wind turbine manufacturer and installer Vestas Wind Systems was the top contributor to fund performance. Being overweight in Lonza Group, a supplier to life science companies, and German semiconductor manufacturer Infineon, were also among the main contributors. Meanwhile, our overweight position in financial services company Standard Chartered, along with not holding technology companies Apple and Amazon, detracted from performance.

Outlook

It remains difficult to predict how global equity markets will perform over the coming year. It is likely that in the short-medium term, the rollout of vaccines will support investor confidence and aid in equity market growth. But reinforced lockdown restrictions and the new, more quickly spreading variant of the virus may hinder economic recovery. Countries have also taken widely different approaches to deal with the pandemic, and this has created a reasonably large gap in how quickly economies are recovering. Although markets have been supported by extensive central bank policies, global debt is currently at record levels and it is inevitable that governments will eventually need to pursue austerity. How governments go about cutting costs will be vital in shaping how equity markets perform. It is likely that global markets will be volatile until a vaccine is successfully rolled out. In the short-term however, we believe that markets will continue to grow due to positive investor sentiment. Due to this, it is important that we continue to select high-quality firms that can generate a return through any market volatility that may arise.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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192221 - 30/04/2022

Aviva Investors Stewardship UK Equity Income Fund (the “Sub-Fund”)

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

As at the date of this assessment, the Sub-fund aimed to deliver an income return of at least 110% of the income return of the FTSE® All-Share Index over any given 12-month period, whilst also aiming to grow your investment over the long term (5 years or more) by investing in shares of UK companies which meet the Sub-fund’s ethical criteria.



2. Performance

As at the date of this assessment, the Sub-fund aimed to deliver an income return of at least 110% of the income return of the FTSE® All-Share Index over any given 12-month period, whilst also aiming to grow your investment over the long term (5 years or more) by investing in shares of UK companies which meet the Sub-fund’s ethical criteria.

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment.

The nature of the Sub-fund’s ethical investment objective has made income generation increasingly challenging due to the specific stock exclusions required by the Stewardship range. As a consequence, from 15th February 2021 the yield target was amended such that the Sub-fund aims to deliver an income return in excess of the FTSE® All-Share Index, annualised over a rolling three year period.

It should also be noted that the level of income generated over the last 12 months has declined when compared to previous periods. This can be attributed in part to the impact of the Covid-19 pandemic, which resulted in a number of large companies who have historically been regular dividend payers, either deferring or cancelling their 2020 dividends.

The Board therefore believe that the introduction of a more realistic income target will enable the Sub-fund to deliver value to investors over the longer term.

A detailed explanation of the last 12 months performance is included in the Fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned -9.60%* (gross of fees). The Sub-fund's benchmark, the FTSE® All-Share Total Return index, returned -6.42% over the same period.

Review

Over the past year, UK equity markets have experienced a period of significant disruption. During quarter one, Covid-19's spread around the world, and the subsequent lockdown restrictions introduced to control it, caused UK markets to post their biggest fall since black Monday in 1987. Since March, equities have made a slow recovery as restrictions were lifted, central bank policies were implemented, and economic activity began to pick up. Over quarter three, UK GDP growth exceeded expectations and was reported at 16%; this comes from a contraction of 19.8% in quarter two. Prospects for economic recovery drove investor optimism but fears of a second national lockdown and worries over the upcoming Brexit transition hindered market growth. Late in the year, a new, more quickly spreading variant of Covid-19 appeared in the UK, but markets were supported by positive news on, and the initial roll-out of, a vaccine. The announcement that a Brexit deal had been agreed provided further support.

Within UK markets, mining and technology companies were amongst the top performers. These industries were supported by rising precious metal prices and increased consumer demand for technology. Online retailers performed especially well, while in-person retailers struggled, reflecting a significant change in consumer habits due to the virus. Meanwhile, airlines and oil companies were hit the hardest by the pandemic as lockdown restrictions resulted in massive declines in demand. This shock was so significant that WTI futures turned negative for a period in April.

The portfolio mainly holds UK equities. Relative to the FTSE All-Share Custom Index, the fund was overweight in financials, telecommunications, and technology, and underweight in basic materials and healthcare. When compared to the benchmark, the main contributor to fund performance was our overweight position in financials; although, being underweight in banks, which typically perform poorly during economic hardship, also contributed. Meanwhile, the consumer services sector, one of the worst hit by Covid-19-related restrictions, was the main detractor.

Within financials, the fund's underweight position in investment bank and financial services company HSBC was the top contributor to performance relative to the benchmark. Our overweight positions in asset manager Intermediate Capital Group and insurance provider Phoenix Group were also amongst the top contributors. Meanwhile, our overweight position in cinema company Cineworld was the main detractor from fund performance as lockdown restrictions prevented normal operations.

Outlook

It is difficult to predict how UK equities will perform over the coming year. The discovery of the new variant of the virus along with the reintroduction of some lockdown restrictions will further slow economic recovery. But, the rollout of vaccinations, if done quickly, may allow an earlier return to near pre-virus economic conditions. While many central banks, the Bank of England included, have provided strong support through policies, government debt has reached an all-time high. Eventually, the UK government will need to cut spending to reduce debt; how this is done will likely play an important role in the performance of equity markets going forward. In the short-term, however, we believe that we will continue to see growth in UK equity markets. But, with several factors at play, the longer-term outlook is much harder to predict. Due to this, it is important that we continue to focus on selecting high-quality, value companies, with strong fundamentals that can provide growth through uncertain times.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned -6.35% (gross of fees)*. The Sub-fund's benchmark, the FTSE® All-Share Total Return Index, returned -6.95% over the same period.

Review

Over the past year, UK equity markets have experienced a period of significant disruption. During quarter one, Covid-19's spread around the world, and the subsequent lockdown restrictions introduced to control it, caused UK markets to post their biggest fall since black Monday in 1987. Since March, equities have made a slow recovery as restrictions were lifted, central bank policies were implemented, and economic activity began to pick up. Over quarter three, UK GDP growth exceeded expectations and was reported at 16%; this comes from a contraction of 19.8% in quarter two. Prospects for economic recovery drove investor optimism but fears of a second national lockdown and worries over the upcoming Brexit transition hindered market growth. Late in the year, a new, more quickly spreading variant of Covid-19 appeared in the UK, but markets were supported by positive news on, and the initial roll-out of, a vaccine. The announcement that a Brexit deal had been agreed provided further support.

Within UK markets, mining and technology companies were amongst the top performers. These industries were supported by rising precious metal prices and increased consumer demand for technology. Online retailers performed especially well, while in-person retailers struggled, reflecting a significant change in consumer habits due to the virus. Meanwhile, airlines and oil companies were hit the hardest by the pandemic as lockdown restrictions resulted in massive declines in demand. This shock was so significant that WTI futures turned negative for a period in April.

The portfolio is focused on UK equities. In comparison to the FTSE All-Share Custom Index, we held overweight positions in health care and consumer goods, and underweight positions in financials, basic materials, utilities, and consumer services. The main contributor to performance was our stock selection in industrials, while being underweight in financials was also beneficial. Our overweight position in consumer goods and being underweight in basic materials detracted.

Individually, the top contributors to fund performance relative to the benchmark were our overweight positions in plumbing and heating distributor Ferguson and the London Stock Exchange Group; both companies recovered to pre-virus price levels over the period. The main detractor from performance was our overweight position in banking and financial services company Standard Chartered; the poor economic conditions caused by the Covid-19 pandemic dissuaded investors. Not holding consumer goods, multinational Reckitt Benckiser also detracted as the company benefited from a boost in demand for hygiene products.

Outlook

It is difficult to predict how UK equities will perform over the coming year. The discovery of the new variant of the virus along with the reintroduction of some lockdown restrictions will further slow economic recovery. But, the rollout of vaccinations, if done quickly, may allow an earlier return to near pre-virus economic conditions. While many central banks, the Bank of England included, have provided strong support through policies, government debt has reached an all-time high. Eventually, the UK government will need to cut spending to reduce debt; how this is done will likely play an important role in the performance of equity markets going forward. In the short-term, however, we believe that we will continue to see growth in UK equity markets. But, with several factors at play, the longer-term outlook is much harder to predict. Due to this, it is important that we continue to focus on selecting high-quality, value companies, with strong fundamentals that can provide growth through uncertain times.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 6.1% (gross of fees)*. The Sub-fund's benchmark, the MSCI® All Country World NDR Total Return Unhedged GBP Index, returned 12.7% over the same period.

Review

The effect of both the spread of and measures to contain the Covid-19 coronavirus dominated global financial markets' performance in the first half of the year. In equity markets, all regions were down as the pandemic hit economic activity indiscriminately and simultaneously in all parts of the world. Global equity markets then rebounded on the back of easing lockdowns, continued government support packages and signs of economic recovery. Over a volatile year, the Strategic Global Equity strategy lagged its benchmark, returning 6.1% compared to 12.7% for the MSCI All Countries World index, gross of fees in sterling terms.

The impacts of investor risk aversion manifested in various ways across the factors in the portfolio over the first half of the year. Virtually all measures of Value underperformed in this environment. As a result, the factor was the largest detractor from portfolio performance. Some of our Governance signals also struggled in 2020, continuing their recent poor run of form. Smaller cap stocks suffered during the sudden and steep market sell-off. Then, as investor sentiment improved, small cap stocks rebounded more sharply than the broader market which offset most of the losses the factor saw during the market crash in Q1.

On a more positive note, the strong performance of Profitability throughout the first half of the year, particularly in March, offset some losses as investors favoured the benefits offered by stable, profitable companies on balance. Low Volatility stocks, that investors perceived to be relatively safe, held up comparatively well during the market downturn. However, as investor sentiment improved and with that came an increased appetite for riskier stocks. Our allocation to Low Volatility gave back the performance in the following market rally and continued to lag the market to the end of the year. Elsewhere in the portfolio, the contribution from Momentum was effectively flat in H1, with no large monthly impacts of note.

Going into the second half of the year the fund continued to struggle. Market breadth – the ratio of winning stocks to losing stocks – remained persistently low compared to history, making it difficult for diversified strategies such as ours to outperform. The market rallied strongly in November on the back of renewed optimism around a coronavirus vaccine. As in previous sudden Covid-recovery events, Profitability and Momentum sold off, while Value and Governance rebounded. The net effect on the portfolio was unfortunately negative, as the selloff in Profitability and Momentum exceeded the rally in Value and Governance.

Our interpretation of this pattern of performance is that it represents a significant unwinding of the state of global equity markets caused by the Covid pandemic. The crisis intensified pre-existing negative trends in Value, and hence when the outlook improved, Value bounced, but still to a level that reflects its currently negative secular trend. By contrast, Profitability was roughly flat before and after the pandemic drawdown; thus, the Profitability drawdown associated with the vaccine returns the factor to almost exactly its pre-Covid starting point.

In December, most targeted factors made positive contributions to relative performance with the exception of the Low Volatility factor, which continued to lag the market as it has done so since the Covid recovery leaving the portfolio behind its benchmark overall.

Over the course of time we seek to make thoughtful, incremental improvements to our process: what we do today follows naturally from what we were doing yesterday. As a result, you can expect on average 2-3 progressive changes our portfolios over the course of a year. In 2020, we made three updates: added a new size constraint in Q2; introduced a liquidity feature into our stock selection process; and most recently, made a change to our low volatility signal in Q4.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

Past performance is not a guide for future performance, the value of your investment can go down as well as up and you may not get back the amount invested.

Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned -10.60%* (gross of fees). The Sub-fund's benchmark, the FTSE® All Share Index (excluding Aviva and Excluding Investment Trusts), returned 9.78% over the same period.

Review

Over the past year, UK equity markets have experienced a period of significant disruption. During quarter one, Covid-19's spread around the world, and the subsequent lockdown restrictions introduced to control it, caused UK markets to post their biggest fall since black Monday in 1987. Since March, equities have made a slow recovery as restrictions were lifted, central bank policies were implemented, and economic activity began to pick up. Over quarter three, UK GDP growth exceeded expectations and was reported at 16%; this comes from a contraction of 19.8% in quarter two. Prospects for economic recovery drove investor optimism but fears of a second national lockdown and worries over the upcoming Brexit transition hindered market growth. Late in the year, a new, more quickly spreading variant of Covid-19 appeared in the UK, but markets were supported by positive news on, and the initial roll-out of, a vaccine. The announcement that a Brexit deal had been agreed provided further support.

Within UK markets, mining and technology companies were amongst the top performers. These industries were supported by rising precious metal prices and increased consumer demand for technology. Online retailers performed especially well, while in-person retailers struggled, reflecting a significant change in consumer habits due to the virus. Meanwhile, airlines and oil companies were hit the hardest by the pandemic as lockdown restrictions resulted in massive declines in demand. This shock was so significant that WTI futures turned negative for a period in April.

The portfolio is dominated by UK equities. In comparison to the FTSE All-Share Ex IT Ex Aviva index, the fund is heavily overweight in financial and utilities, while being underweight in consumer goods, health care, oil & gas, consumer services, and basic materials. Our overweight position in financials was the main contributor to performance, while being underweight in oil & gas also contributed. Being underweight in consumer services was the main detractor.

Individually, the fund's underweight position in investment bank and financial services company HSBC holdings was the top contributor. Our overweight position in asset manager Intermediate Capital Group, and being underweight in oil & gas company BP, which was significantly impacted by the reduced demand for oil, also contributed. Meanwhile, our holding in cinema operator Cineworld was the main detractor.

Outlook

It is difficult to predict how UK equities will perform over the coming year. The discovery of the new variant of the virus along with the reintroduction of some lockdown restrictions will further slow economic recovery. But, the rollout of vaccinations, if done quickly, may allow an earlier return to near pre-virus economic conditions. While many central banks, the Bank of England included, have provided strong support through policies, government debt has reached an all-time high. Eventually, the UK government will need to cut spending to reduce debt; how this is done will likely play an important role in the performance of equity markets going forward. In the short-term, however, we believe that we will continue to see growth in UK equity markets. But, with several factors at play, the longer-term outlook is much harder to predict. Due to this, it is important that we continue to focus on selecting high-quality, value companies, with strong fundamentals that can provide growth through uncertain times.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

Past performance is not a guide for future performance, the value of your investment can go down as well as up and you may not get back the amount invested.

Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned -6.35%* (net of fees). The Sub-fund's benchmark, the FTSE® All Share Index (excluding Aviva and Excluding Investment Trusts), returned -11.97% over the same period.

Review

Over the past year, UK equity markets have experienced a period of significant disruption. During quarter one, Covid-19's spread around the world, and the subsequent lockdown restrictions introduced to control it, caused UK markets to post their biggest fall since Black Monday in 1987. Since March, equities made a slow recovery as restrictions were lifted, central bank policies were implemented, and economic activity began to pick up. Over quarter three, UK GDP growth exceeded expectations and was reported at 16%; this comes from a contraction of 19.8% in quarter two. Prospects for economic recovery drove investor optimism, but fears of a second national lockdown and worries over the upcoming Brexit transition hindered market growth. Late in the year, a new, more quickly spreading variant of Covid-19 appeared in the UK, but markets were supported by positive news on, and the initial roll-out of, a vaccine. The announcement that a Brexit deal had been agreed provided further support.

Within UK markets, mining and technology companies were among the top performers. These industries were supported by rising precious metal prices and increased consumer demand for technology. Online retailers performed especially well, while in-person retailers struggled, reflecting a significant change in consumer habits due to the virus. Meanwhile, airlines and oil companies were hit the hardest by the pandemic as lockdown restrictions resulted in massive declines in demand. This shock was so significant that WTI futures turned negative for a period in April.

The portfolio is dominated by UK equities. In comparison to the FTSE All-Share Ex IT Ex Aviva Index, the fund is overweight in technology, financials, and industrials, while being underweight in consumer goods, utilities, consumer services, and oil & gas. The main contributors to fund performance were stock selection and overweight positions in the financial and industrial sectors. Meanwhile, our holdings in healthcare and telecommunications detracted.

Individually, our overweight position in the London Stock Exchange Group was the main contributor to fund performance and was followed by our holdings in industrial equipment rental company Ashted Group. Both stocks managed to return to their pre-virus price levels over the period. The main individual detractor from fund performance was our holdings in oil company Royal Dutch Shell. The company was hit especially hard by Covid-19-related lockdown restrictions, and the subsequent reduction in demand for oil.

Outlook

It is difficult to predict how UK equities will perform over the coming year. The discovery of the new variant of the virus along with the reintroduction of some lockdown restrictions will further slow economic recovery. But, the rollout of vaccinations, if done quickly, may allow an earlier return to near pre-virus economic conditions. While many central banks, the Bank of England included, have provided strong support through policies, government debt has reached an all-time high. Eventually, the UK government will need to cut spending to reduce debt; how this is done will likely play an important role in the performance of equity markets going forward. In the short term, however, we believe that we will continue to see growth in UK equity markets. But, with several factors at play, the longer-term outlook is much harder to predict. Due to this, it is important that we continue to focus on selecting high-quality and undervalued companies that can provide growth through uncertain times.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of fees, net of income reinvested.

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund’s overall performance after charges, relative to its investment objectives, policy and strategy was deemed to be within a reasonable range of outcomes based on the various time periods reviewed and the information considered in the assessment. A detailed explanation of performance over the last 12 months is included in the Sub-fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Subfund returned -8.0% (gross of fees). The Sub-fund's benchmark, the FTSE® All Share Total Return Index returned -9.8% over the same period.

Review

The portfolio strongly outperformed the FTSE All-Share index by 1.8% in 2020. UK equities fell sharply in March as the coronavirus pandemic caused the fastest decline in global financial markets on record. Equity markets have staged a recovery from their lowest point in March following the significant monetary and fiscal responses to Covid-19 from governments and central banks and positive vaccine news emerging in November. However, the UK equity market is still 9.8% below its starting point in 2020.

The top contributors to performance came from a range of companies where we have built conviction positions. These included retailer Pets at Home, which has strong sales growth in pet care and veterinary services, alongside continued investment in its omni-channel capacity. Additionally, life insurer Legal & General, mining group BHP and consumer goods company Unilever also performed strongly.

An uptick in corporate activity in the second half of the year provided a catalyst for the market to begin to recognise some of the mispricing that we see in our portfolio companies. Security services firm G4S and bookmaker William Hill were both bid for. We sold William Hill after its board approved a bid from Caesars. We await further developments on G4S's competing bids from North American rivals GardaWorld and Allied Universal, but have pared our holding back as the shares are currently trading above the recommended Allied Universal offer price. We had supported both G4S and William Hill when the pandemic first hit; through increasing our position size and equity issuance respectively.

Challenging trading conditions in the wake of Covid-19 materially impacted some of our mid-sized holdings that have weaker balance sheets including Capita and Firstgroup, as well as the domestic bank Lloyds Banking Group. Capita and Firstgroup were both looking to dispose of assets to improve their financial position and this was challenging when capital markets ground to a halt during the pandemic.

New holdings in the portfolio include those that could benefit from infrastructure spend, such as US building products distributor Ferguson, construction company Balfour Beatty and diversified miner Anglo American. We are also interested in companies exposed to efforts to reduce climate change and facilitate energy transition. Infrastructure group John Laing, a long-standing holding, is an example here together with new portfolio additions power firm Drax Group and utility National Grid. We financed these purchases largely from sales of oil majors and banks where we took decisive action early in the crisis to sell companies where Covid-19 brought on fundamental concerns.

Positive vaccine news has been a shot in the arm for markets since November as optimism for the future outweighed the near-term negatives of surging Covid caseloads, tighter restrictions, and hits to economic activity. The short-term environment will remain tough for consumers and corporates, effective vaccination should lead to a rollback of restrictions and a release of pent-up demand. This of course assumes that the vaccine rollout programme progresses smoothly with regards distribution, take-up, and efficacy despite viral mutations.

Despite this strong recovery in the fourth quarter of 2020, UK equities on aggregate lagged returns elsewhere over the course of the year. The UK market has higher exposure to sectors such as energy and banking, which have significantly underperformed this year, and has a smaller technology sector. In addition, Brexit uncertainty has continued to weigh on sentiment and though the UK struck a trade deal on goods with the EU at the end of the year, it will take time for businesses to adjust. As a result, valuations remain at a significant discount to other markets. This valuation appeal of quoted UK companies does, however, continue to attract interest from acquirers both corporate and private equity and we expect this to continue into 2021.

The portfolio consists of a blend of lowly valued domestic stocks, such as life insurance business Legal and General, supermarket Tesco and Premier Inn owner Whitbread, as well as market-leading international businesses trading at a material discount to their global peers. These include defence business BAE Systems, luxury goods firm Burberry and life insurance business Prudential. With an economic recovery emerging during 2021 as vaccination rollout covers the more vulnerable in society, allowing the lifting of restrictions and the resumption of more normal life, companies are likely to have greater confidence to reinstate guidance, resume investment activities and make dividend payments.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund aims to deliver an income return of at least 110% of the FTSE® All Share Total Return Index over a rolling 3 year basis, whilst also growing your investment over the long term (5 years or more) by investing in shares of UK companies.

The Sub fund’s overall performance, relative to its investment objectives, policy and strategy was considered to be at the lower end of the range of expected outcomes for an actively managed fund based on the various time periods reviewed and the information considered in the assessment.

The income generated over the year to 31 December 2020 has declined when compared to previous periods, however the average yield over the last 3 years equates to 106% of the FTSE® All Share Total Return Index, and the Sub-fund has achieved average annual growth of 5.57% (net of fees) over the last 5 years.

The reduction in yield and underperformance over the last 12 months can be specifically attributed to the impact of the Covid-19 pandemic, which resulted in a number of large companies who have historically been regular dividend payers, either deferring or cancelling their 2020 dividends.

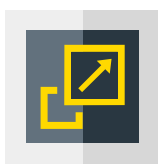
Despite the challenging 12 months experienced by the Sub-fund, the Board believes that investment performance should be judged over the long term, and that the Investment Manager’s continued management of the Sub-fund is in the best interests of investors.

A detailed explanation of the last 12 months performance is included in the Fund Manager’s Report below.



3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality. The Board concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned -14.4%* (gross of fees). The Sub-fund's benchmark, the FTSE® All Share Total Return Index, returned -9.8% over the same period.

Review

UK equities rallied in the second half of the year, most notably in November following the news of an effective COVID-19 vaccine and the expectations of an economic recovery on the horizon along with it. Most notably it was the cheapest areas of the market, those that had suffered the biggest drawdowns in the year's earlier sell off that rallied most aggressively, illustrating how disconnected parts of the market had become.

The strongest performer was Royal Mail whose shares rallied nearly 80%. Royal Mail continues to face a number of challenges, but it has a strong balance sheet and has become favoured as a beneficiary of changes to consumer behaviour caused by the pandemic, with parcel volumes increasing as consumers move online.

The portfolio's holdings in the financials sector performed strongly. NatWest gained nearly 40%, Barclays was up 28% and Provident Financial returned over 70% over the period. The extraordinary share price moves of many of our favoured businesses were really a reflection of just how polarised markets became in 2020, rather than the result of a commensurate improvement in their operational performance. We are still supportive of our banking names, which have very strong balance sheets which we think the market is not fully recognising the value of.

Other strong performers over the period include American performed well. It has been a top contributor to the portfolio in recent years. Profits have grown, the balance sheet is repaired, it has grown the dividend, and management deserve significant credit for their restructuring and cost cutting.

On the negative side, Sanofi detracted, after strong performance earlier in the year. We had started trimming our position with the view that better risk versus reward opportunities were being offered elsewhere. Other detractors included TP Icap, Morrisons and BP.

Despite the strong value rally, especially in Q4, we still believe the cheaper areas of the market we are exposed to still offer compelling upside for the associated risks.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

Aviva Investors US Large Cap Equity Fund (the “Sub-Fund”)

In line with the requirement to conduct an assessment of value, the following summarises the conclusions reached by the Board having considered the range of factors as set out in the ‘Value Assessment Approach’ (see [avivainvestors.com/value-assessments](https://www.avivainvestors.com/value-assessments)) which describes how we carry out the Value Assessment. This applies to all Unit Classes in the Sub-fund unless we have specifically noted Unit Class exceptions.



1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the Sub-fund’s operating model was considered to be working effectively over the period. Investors received clear communications and relevant information at appropriate times to enable them to make informed decisions regarding their investment, and the service delivered has been timely and of an appropriate quality.



2. Performance

The Sub-fund aims to grow your investment over the long term (5 years or more) by investing in shares of companies in North America. In the Value Assessment published in April 2020 the Board noted that the Sub-fund’s performance since launch was at the lower end of the range of expected outcomes for an actively managed fund. This led to changes to the investment personnel who manage the Sub-fund and amendments to the Sub-fund’s investment philosophy, including an increase in the number of investments to create a more diversified portfolio, albeit within the requirements of the stated investment objective and policy.

Following these changes, and specifically over the last year, the Sub-fund has outperformed the S&P® 500 Total Return GBP Index (+5.25%)* and the value of the Sub-fund has increased at an annual rate of 17.2% (net of fees)* over the last 5 years. Consequently, for the year to 31 December 2020, the Sub-fund’s performance after charges was deemed to be within a reasonable range of outcomes relative to its investment objective, policy and strategy.

The Board therefore believe that the improvements in performance over the last year indicate that the changes made to the investment personnel and philosophy have had a positive impact, and the Sub-Fund is better positioned to deliver against its stated objective over the longer term.

A detailed explanation of the last 12 months performance is included in the Fund Manager’s Report below.



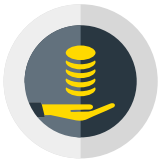
3. Authorised Fund Manager Costs

The fees paid were considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Sub-fund.



4. Economies of Scale

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5. Comparable Market Rates

The fees paid for each of the services provided to the Scheme and each Sub-fund (internally or externally) were considered to be competitive relative to those charged by similar competitor funds within the UK regulated funds market.



6. Comparable Services

On the basis of the available information and the comparable services considered, the fees were deemed to be reasonable compared to the fees charged by associated companies within the Aviva Group for any comparable products available in the UK of an equivalent size and with a similar investment objective and policy to the Sub-fund.



7. Classes of Units

The pricing of each Unit Class of the Sub-fund is considered to be reasonable based on the different Unit Class eligibility criteria and target investor for each Unit Class. All investors are invested appropriately in the Unit Class they are eligible to hold in the Sub-fund at the date of the assessment.



Overall Assessment Conclusion

In conclusion, the Board confirms all components of the assessment have been considered and the charges for each of the Unit Classes are justified in the context of overall value being delivered to investors.

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Fund Manager's Report

Performance

Over the twelve months ended 31 December 2020, the Sub-fund returned 20.7%* (gross of fees). The Sub-fund's benchmark, the S&P® 500 Total Return GBP Index, returned 14.7% over the same period.

Review

The story of 2020 was largely dictated by the catastrophic impact of the Covid-19 pandemic. Early in the year, the stock markets reacted to the global pandemic and implications for economic growth as a consequence of efforts to mitigate its spread. Central banks and governments around the world announced huge and unprecedented policy measures to support business and households and reduce borrowing costs. While the crash was unusually severe in a historical context, the recovery was equally extraordinary as markets rallied in the second and third quarters to recover share price losses by August. A resurgence in the virus in many parts of world curbed the recovery in September and October, however the news in November that a number of vaccines had proven effective against the virus led global equities to finish the year strongly. The US Presidential elections, trade wars and Brexit, amongst other events ordinarily be considered material, were largely overshadowed.

Against this backdrop, the portfolio strongly outperformed over 2020. Our sector positioning contributed positively, as did a significant bias to high quality compounders which benefitted to operating and financial resilience throughout the year. Names such as Amazon and Adobe exemplifying these traits. Our industrials stocks were strongest. Deere and Rockwell Automation in particular performing well over the year. Our technology and communication services holdings were also significant contributors. Many of these companies were beneficiaries to the lifestyle changes the pandemic brought as populations switched to remote working and embraced social media platforms and online gaming. Conversely, exposure to areas of the economy most adversely affected by Covid-19, for example in leisure, travel and luxury detracted alongside banks, which generally struggled in light of the challenging economic and operating environment. Similarly, our persistent underweight to Apple throughout the year weighed significantly on relative returns as investor exuberance led to significant increases in the share price of this stock.

Positive news and significant progress in the development and roll-out of mass vaccination against Covid-19 has transformed the economic and market outlook. For the first time in nearly a year there is now a line of sight for recovery and the resumption of some sort of normality. It is now more certain that the global economy will start to normalise through CY 2021. In the near term, however, risks remain that further incidence of the virus could continue to undermine the speed of the recovery and investor sentiment, in particular the discovery of a more infectious mutation of the virus in the UK. Unemployment levels look set to rise again as government job support schemes start to be wound down and companies toil from both the effects of the virus and long term structural change in consumer behaviour and the competitive landscape. Structural imbalances will be severe and will not be easily remedied by the action of central banks. Looking beyond the short term challenges, we expect a recovery to see a significant broadening of the equity market in 2021. Technology can still do well, but some of the un-loved areas may do better still. Investors have begun to look at the potential for revenue and earnings growth in many "out-of-favour" areas that suffered during the pandemic. It seems highly plausible that when the recovery takes hold many of these businesses will experience a sharp rebound. In addition, expectations in cyclical sectors such as energy, materials or industrials are low and merit consideration. For many, even a moderate pick-up in global demand in 2021 will drive significant revenue and profit growth. Regionally, we also expect to see the dominance of the US challenged given the potential for a significant profit recovery in other regions.

* Fund performance figures - source Lipper, a Thomson Reuters company, net of income reinvested.

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