Aviva Investors Select Funds ICVC Value Assessment Report

June 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 28 February 2021.

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 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 28 February 2021 have been resilient.

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

An introduction to Value Assessments

An Authorised Fund Manager ('AFM') must conduct an assessment of value for each share class in each of the funds that it manages at least annually. The Financial Conduct Authority's (FCA) rules prescribe a minimum set of components that need to be considered to determine if a fund provides value to investors, and that its costs and charges are justified in this context.

The following describes how we, as AFM of the Funds, approaches the assessment and the range of factors considered by the Company's board of directors ('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 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 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 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 fund operated in accordance with its respective risk limits and investment restrictions.

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 fund where no other viable options are available.

Further information on the specific performance of individual funds is included in the Fund Manager Report section of the Report and Accounts, covering the period relevant to that report. More topical information is available in the regular fund factsheets and updates, available on our website.

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 fund.

We undertook a thorough review of charges across our fund range in 2018, which resulted in the introduction of a single Fund Management Fee ('FMF'). The FMF is the only direct charge deducted from the funds and is a simpler charging model for investors. The review also resulted in the charges being reduced on several funds.

The underlying fees, costs and expenses covered by the FMF 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;
– the permitted costs in connection with periodic statements and accounts; and
– 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 fund. The model is refreshed semi-annually and provides a comparison of the FMF for each fund against all elements of cost that must be paid out of the proceeds. This helps us determine whether the FMF is fair based on the costs of services provided for the relevant share class, with an appropriate allowance for the income earned by 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 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 share class and the extent to which investors might also benefit from financial savings that result. For example, whether the FMF 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 fund, and the appropriate level of FMF, 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 FMF.

In looking at whether investors have benefited appropriately, either directly or indirectly, in any savings or benefits in relation to the management of the 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 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 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 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 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 FMF.

6. Comparable services

The Board considers whether the fees charged by the Company for the services it performs for the fund are consistent with those charged by the Company and other companies within the Aviva Group. This gives consideration to 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.

As stated in section 3, we undertook a thorough review of our charging mechanism across the fund range in 2018, which resulted in the introduction of a single FMF. Part of this exercise was to ensure the fees charged were appropriate across our UK range of regulated funds; considering their relative nature, investment objectives and services provided.

7. Classes of units

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

As part of the review of our charges in 2018, we carried out an assessment of whether investors held units in the most appropriate share class. The review prompted the closure or merger of a number of share classes, along with the amendment of some minimum investment limits and share class eligibility criteria, and the removal of trail commission to advisers. This resulted in some investors being moved into alternative share classes that either had fees of an equivalent level, or lower than they had been paying previously.

In addition, we have a process in place to identify any investors who would be eligible for a share class with lower fees. If any such investors are identified, steps are taken to move them into that share class if possible.

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 fund.

Aviva Investors US Equity Income Fund II (the "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 Share Classes in the Fund unless we have specifically noted Share Class exceptions.

1. Quality of Service

The range, nature, extent and quality of the services provided to investors has been assessed and the 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 Fund aims to grow your investment by providing combined income and capital growth (before charges and taxes) greater than the Russell 3000 Value Index over the long term (5 years or more) by investing in shares of North American companies. The Fund also seeks to deliver an income of at least 125% of that of the benchmark over any given 12-month period, which the Fund has achieved consistently in each of the last 5 years.

In the Value Assessment published in June 2020 the Board noted that the US stock market had seen unprecedented growth over the last decade which can be unfavourable for value strategies such as that followed by the Fund, and this has made delivering total return outperformance challenging, especially when combined with achieving the income objective consistently.

Over the last 12 months the Covid-19 pandemic has had a significant impact on Global markets, with companies announcing dividend cuts or deferrals. Despite this, the Fund has maintained a high dividend yield of 3.85%* compared to the benchmark which yielded 2.08% (gross of fees & taxes). However total return performance has been disappointing, with the Fund underperforming the benchmark by 2.37%* (gross of fees and taxes) and 3.47%** after fees and taxes during the same period.

The Investment Manager is of the view that as the economic rebound continues throughout 2021, value stocks are expected to come back into favour, and therefore demand for higher quality dividend-paying stocks is expected to be positive, particularly in the continuing low interest rate environment, and this will improve prospects for the Fund's performance.

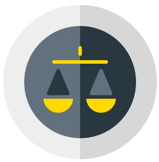
The Board believes that the effects from the Covid-19 pandemic has had an impact on the Fund, which despite these headwinds has continued to achieve its income target, and therefore the Board is of the opinion that investors who hold this Fund primarily for its high income generation have continued to benefit from the investment strategy. Therefore, the Board believes that the Investment Manager's continued management of the Fund is in the best interests of investors. However, the 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 Fund Management Fee (FMF) is the single charge paid to the Authorised Fund Manager and is considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Fund.

* Yield and performance figures based on Share Class 1, gross of fees and taxes for the period to 28 February 2021.
** Performance figure based on Share Class 1, net of fees and taxes for the period to 28 February 2021.



4. Economies of Scale

The specific benefits derived from economies of scale are returned to investors in various ways including through the FMF review process as referred to in the Value Assessment Approach. 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, as there has been a reduction in the size of the Fund during the previous 12 months, and as such no additional savings have been identified.

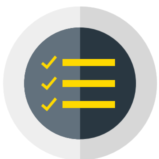
5. Comparable Market Rates

The fees paid for each of the services provided to the Fund (internally or externally) were reviewed, and as a result of the ongoing exercise that the Company undertakes to benchmark fees against equivalent funds run by other firms, a decision has been taken to lower some of the fees charged in order to provide greater value for investors, as detailed below.

Share Class	Fund Management Fee as at 30/6/2021	Fund Management Fee with effect from 2/8/2021
Share Class 1	1.13%	1.00%
Share Class 2	0.88%	0.75%
Share Class 3	0.80%	0.55%

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 Fund.



7. Classes of Units

The pricing of each Share Class of the Fund is considered to be reasonable based on the different Share Class eligibility criteria and target investor for each Share Class. All investors are invested appropriately in the Share Class they are eligible to hold in the 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 share classes are justified in the context of overall value being delivered to investors. This conclusion has taken into account the decision to lower the FMF for each of the Share Classes detailed in the above table with effect from 2 August 2021, due to the market rates benchmarking exercise which has been undertaken. The charges for all other share classes remain unchanged.

Past performance is not a guide to the future. The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.

Fund Manager's Report

Portfolio

Over the twelve months ended 28 February 2021 the Fund (share class 1, net of fees) delivered a return of 8.78%* compared with an average return of 12.69% for the Russell® 3000 Value benchmark.

Review

It is fair to say that one would need to go back nearly 80 years, to the attack on Pearl Harbor, to find an event that could compare with the sudden, intense shift in economic behavior that we experienced in Q1 due to COVID-19. Whereas there was a resurgence of economic activity in 1942 as the country geared up for war, this battle required the exact opposite approach. Policymakers across the globe commanded that whole swathes of economic activity be halted in order to reduce the spread of this disease. As if a global pandemic was not bad enough, the breakdown of OPEC negotiations led to a surge in oil supply which only compounded the challenge posed by declining demand – leading to a truly historic plunge in oil prices and crippling one of America's growth industries.

The market rally that started in the final week of Q1 continued for much of Q2, led by 'deep value' stocks – the cheapest, lowest quality, highest risk, and highest beta companies in the index. At first, investors were clinging to hopes that increased testing and unprecedented amounts of stimulus could bridge the economic chasm that grew ever deeper as the duration of the quarantine went well past the original estimates. By May, select states had started to reopen and it looked like the worst might be behind us, fueling further optimism. However, by mid-June the first test of this bear market rally was precipitated by valuation concerns, an exhaustion in appetite for overbought low quality/high beta stocks, and, more visibly, fear as a 'second wave' of COVID-19 began to materialize. Over a span of a few weeks, equity markets retreated, led by small cap and value indices.

It should be little surprise a year as chaotic as 2020 would go out with a bang. The 'blue wave' election result pundits projected did not play out, but the Democratic party made enough headway to capture the White House and Congress by the thinnest of margins. However, in early November, the election results (which were then still uncertain) were quickly eclipsed by the announcement of positive trial results for the Pfizer/BioNTech COVID-19 vaccine. With little doubt the FDA would quickly approve the compound, U.S. equity markets surged. After dominating throughout the first three quarters of the year, large/mega cap and growth stocks, including the FANG+ stocks, lagged behind small cap and low quality value stocks.

U.S. equity markets surged in February as lockdowns eased once again amid a steady ramp in vaccine administration. Again, small cap stocks led by a wide margin over large cap, extending the strong reversal that started in Q4. Driven by sharp rallies in the Energy and Financials sectors, value indices significantly outperformed growth in the period. FactSet is reporting that earnings for S&P 500 companies in Q4 were up +3.9% year over year as the vast majority reported positive surprises. S&P 500 earnings are now expected to fully recover from the pandemic induced recession in 2021 and are projected to come in about 7% above 2019 levels.

In the period, small cap stocks significantly outperformed mid and large caps, as the Russell 2000 returned +51.00% versus +36.12% and +34.28% for the Russell Midcap and Russell 1000, respectively. Growth stocks drastically outperformed their value peers during the period, by a minimum of +1,782 bps, which was among small caps. Among large caps, the Russell 1000 Growth outperformed the Russell 1000 Value by +2,204 bps!

The most significant positive impacts on relative performance were from stock selection in Utilities (+287 bps) and Industrials (+102 bps). Five of the six Utilities holdings significantly outperformed the broader sector return including top performer AES Corp. (AES, +61.7%). The Industrials sector benefited from its holding of United Parcel Service Inc. (Cl B) (UPS, +77.9%), the second-highest contributor to Portfolio return during the period.

The top five contributors to Portfolio return included Target Corp. (TGT, +79.9%), United Parcel Service Inc. (Cl B), Corning Inc. (GLW, +64.6%), AES Corp., and QUALCOMM Inc. (QCOM, +77.6%).

Overall sector allocation and stock selection detracted from performance relative to the index. The most significant negative impacts on relative performance were from stock selection in Financials (-158 bps) and Consumer Staples (-142 bps). Six of the nine Financials holdings underperformed the broader sector, as did all four of the Consumer Staples holdings.

The five largest detractors to Portfolio return during the period were Ventas Inc. (VTR, -31.6%), Delta Air Lines Inc. (DAL, -50.8%), Kinder Morgan Inc. (Cl P) (KMI, -17.5%), Ryman Hospitality Properties Inc. (RHP, -49.8%), and Omnicom Group Inc. (OMC, -26.7%).

As of February 28, the Portfolio held a total of 46 positions. During the period, we established 17 new positions, eliminated 18, and one position was spunoff and ultimately eliminated.

Outlook

We continue to expect that the recovery process will be a protracted event, and that market volatility will be elevated until a vaccine is widely available, but after a year, it does finally appear there is a light at the end of the tunnel. We anticipate there will be significant long-term implications of this period, both culturally and economically, as new behaviors will emerge, labor markets will exhibit significantly less friction, and businesses will be forced to adjust to capitalize on a more direct connection with their customers. Despite dire predictions, the impact of COVID-19 on U.S. dividends was quite modest as Ned Davis Research reports the real cash dividends paid by S&P 500 companies declined by only -5.5% in 2020. We expect a more supportive economic environment and improved earnings will fuel a positive shift in broader dividend growth in 2021, absent any adverse changes in tax policy. Combined with increased wariness regarding apparent excesses amid the more growth-oriented areas of the U.S. equity market, we believe this creates a very positive outlook for the future of dividend stocks broadly, and the U.S. Equity Income Fund II specifically.

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

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Aviva Investors US Equity Income Fund (the "Fund")

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The Investment Manager is of the view that as the economic rebound continues throughout 2021, value stocks are expected to come back into favour, and therefore demand for higher quality dividend-paying stocks is expected to be positive, particularly in the continuing low interest rate environment, and this will improve prospects for the Fund's performance.

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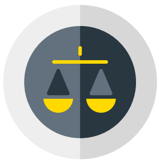

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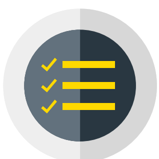

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The most significant positive impacts on relative performance were from stock selection in Utilities (+280 bps) and Industrials (+105 bps). Five of the six Utilities holdings significantly outperformed the broader sector return including top performer AES Corp. (AES, +62.2%). The Industrials sector benefited from its holding of United Parcel Service Inc. (Cl B) (UPS, +78.9%), the second-highest contributor to Portfolio return during the period.

The top five contributors to Portfolio return included Target Corp. (TGT, +80.3%), United Parcel Service Inc. (Cl B), Corning Inc. (GLW, +65.1%), AES Corp., and QUALCOMM Inc. (QCOM, +78.2%).

Overall sector allocation and stock selection detracted from performance relative to the index. The most significant negative impacts on relative performance were from stock selection in Financials (-148 bps) and Consumer Staples (-136 bps). Seven of the 11 Financials holdings underperformed the broader sector, as did all four of the Consumer Staples holdings.

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As of February 28, the Portfolio held a total of 49 positions. During the period, we established 19 new positions, eliminated 19, and one position was spunoff and ultimately eliminated.

Outlook

We continue to expect that the recovery process will be a protracted event, and that market volatility will be elevated until a vaccine is widely available, but after a year, it does finally appear there is a light at the end of the tunnel. We anticipate there will be significant long-term implications of this period, both culturally and economically, as new behaviors will emerge, labor markets will exhibit significantly less friction, and businesses will be forced to adjust to capitalize on a more direct connection with their customers. Despite dire predictions, the impact of COVID-19 on U.S. dividends was quite modest as Ned Davis Research reports the real cash dividends paid by S&P 500 companies declined by only -5.5% in 2020. We expect a more supportive economic environment and improved earnings will fuel a positive shift in broader dividend growth in 2021, absent any adverse changes in tax policy. Combined with increased wariness regarding apparent excesses amid the more growth-oriented areas of the U.S. equity market, we believe this creates a very positive outlook for the future of dividend stocks broadly, and the U.S. Equity Income Fund specifically.

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

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