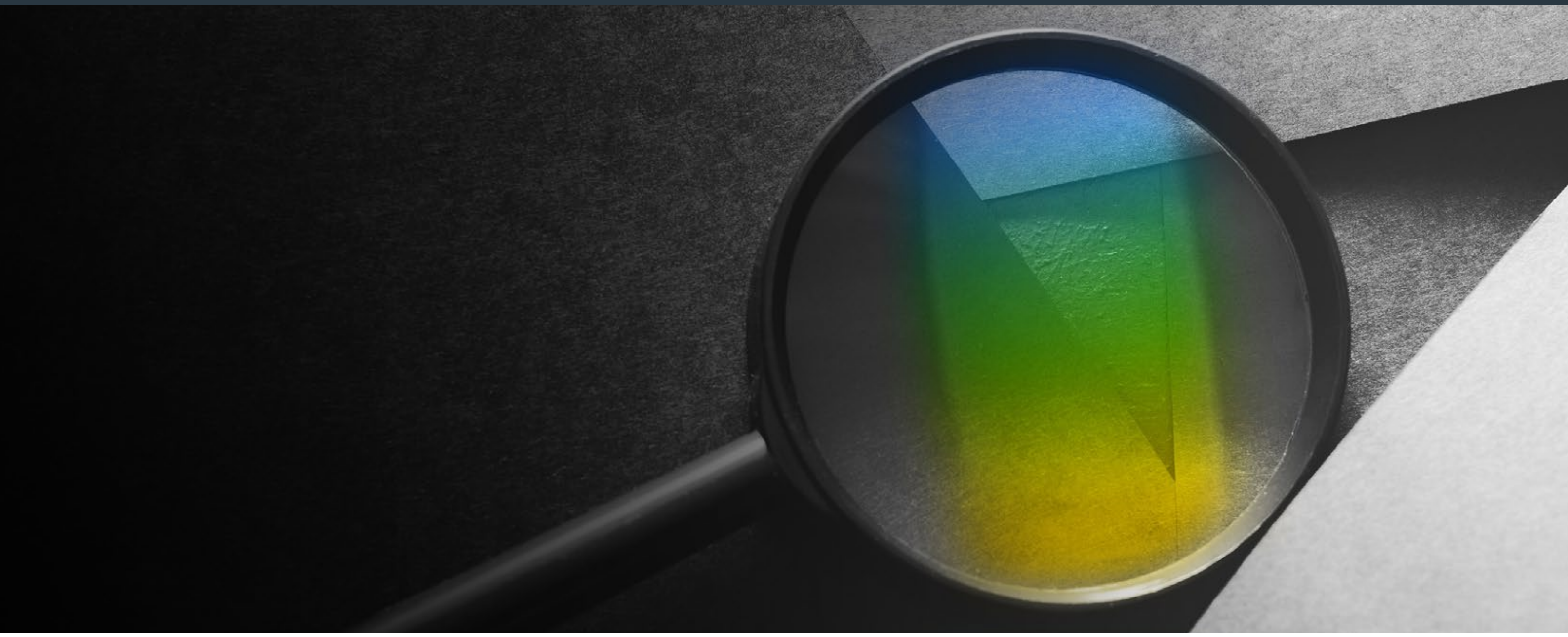
Aviva Investors Japan Equity Growth Fund (the “Fund”) Value Assessment Report

November 2022



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 July 2022.

This is our third Value Assessment report, and although this is only one aspect of our ongoing product governance process, it is our opportunity as a Board to communicate to investors how we continue to ensure that we act in your best interests, and help you to meet your investment needs, something Aviva Investors has been doing for over 50 years.

We have communicated a number of Fund changes to investors over the course of the last 12 months, including changes to investment objectives, and the closure of some Funds where we felt they were no longer able deliver value to investors. We have also lowered fees for several Funds where we felt this was appropriate, and we will continually strive to deliver value for our investors by making further changes where these are necessary.

As we move on from the pandemic, other events such as the war in Ukraine and high inflation continue to impact our daily lives and create challenges from an investment perspective. Positively we have seen improved performance outcomes in a number of Funds, and others remain resilient despite these challenges.

In this report we set out how each Fund has performed over the last 12 months, where we have seen opportunities for improvement, or where it has been necessary to make changes.

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. We have also implemented a number of changes to the process throughout the year, including some enhancements to these reports to assist you in interpreting the results of this review.

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 our Value Assessment Approach which explains how we have reached our conclusions, which can be found here: Value assessment approach - Aviva Investors.

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.

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 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

Share Class	Annualised Return as at 29 July 2022 (%)			
	1 Year	3 Year	5 Year	7 Year
Share Class 2	-2.42	3.83	3.22	6.60
FTSE Japan Total Return Index^	-1.78	3.44	4.37	7.33

Performance basis: Mid to mid, net income reinvested, net of ongoing charges and fees, net of tax payable by the Fund. The figures do not include the effect of any exit or entry charge.

In respect of the period under review, the Fund aimed to grow your investment over the long term by investing in shares of Japanese companies.

In the year to July 2022, the Board notes that performance relative to its investment objectives, policy and strategy is at the lower end of expectations over the long term, however on a rolling three year basis the fund has delivered 0.38% in excess of the benchmark after fees and taxes.

In the Value Assessment published in November 2021 the Board noted that the Fund's overall performance had been disappointing and explained how the Investment Manager's 'value' style bias had impacted performance in earlier years.

As previously communicated to investors, on 25th August 2022 we appointed a new Investment Manager, Tokio Marine Asset Management, to manage the Fund, who will adopt a 'Growth at a Reasonable Price (GARP)' strategy differing from the previous Manager's focus on value stocks, and we also made some changes to the objective and investment policy of the Fund to reflect this.

The Board considers that the decision taken to appoint a new Investment Manager and switch to a growth orientated strategy should benefit investors over the longer term. We will therefore continue to monitor the Fund's performance through our ongoing governance processes to ensure that the change in approach delivers value over the longer term.

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

3. Authorised Fund Manager Costs

Share Class	Fund Management Fee %
Share Class 2	1.31%

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.

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. There has not been a material change 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 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 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.

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

Performance

Over the twelve months ended 31 July 2022 the Fund* returned -2.42% (net of fees). The Fund's benchmark, the FTSE® World Japan Index^, returned -1.78% over the same period.

Review

For the twelve month review period ending July 2022, the FT Japan Index declined by 1.78% in GBP terms. Market volatility has increased since the end of last year, as the Federal Reserve has begun steering monetary policy towards a more hawkish stance by raising interest rates and shrinking its balance sheet in order to curb the surge in inflation. Investor confidence was dealt a blow by the previously unimaginable full-scale Russian invasion of Ukraine at the end of February. While the humanitarian crisis is deeply concerning, the oil price spike triggered by unprecedented and coordinated economic sanctions against Russia inflamed inflationary pressures that are already running at multi-decade highs. In response to persistent inflationary pressure, the Federal Reserve stepped up the pace of its monetary tightening by raising its policy rate by 75 basis points (bps) instead of the previous 50bps increments, and is likely to maintain this faster pace of tightening. Fears of higher interest rates undermined equity valuations and triggered a steep correction in the global stock markets. Towards the end of the June, market attention shifted to an economic growth slowdown or even the prospect of a looming recession, exacerbating the market's woes. However, global equity markets produced a robust bounce back in July, recouping a good share of the losses incurred in the first half of 2022.

The yen has depreciated from JPY110/ US dollar in August last year to 133 currently. Expectations of a widening interest rate gap between Japan and the rest of the world is driving down the value of the yen although the depreciation of a major currency of this magnitude is rarely observed even in the volatile foreign exchange market.

For the annual review period to July 2022, the portfolio slightly underperformed the benchmark index by 19 basis points (bps). While stock selection made a small positive effect, sector allocation failed to add value this year.

(Please note that attribution analysis is performed on the equity portfolio only on a Japanese yen basis.)

Sector allocation had a negative effect over the 12 months review period. The overweight position in the Electronics and underweight position in the Financials mainly had negative impacts on the portfolio. As investors feared that rapid rate hikes could increase the possibility of the global economy sliding into recession, economically sensitive and export demand-oriented manufacturing stocks fell out of favour. Among the manufacturing sectors, the Electronics sector faced a notable pullback. Some investors are concerned about the vulnerability of the semiconductor markets to a slowdown in consumer demand, especially for items such as PCs and smartphones. On the other hand, Financials performed quite well following a rise in US government bond yields. US policymakers indicated that it is ready to begin withdrawing the pandemic crisis stimulus measures, which sent long-term interest rates higher.

Stock selection made a positive contribution during the review period. Stock selection in sectors such as Information/System, Medical and Communications/Utilities contributed positively to the portfolio and offset the negative results elsewhere. In the Information/System sector, the overweight position in Nexon made a positive contribution. Nexon, a global game producer and publisher, rebounded significantly after being heavily discounted due to concerns about a slowdown in its China business. The company announced robust earnings results in its major business market of South Korea and plans to launch several new titles, seemingly lifting investors' confidence in earnings forecasts for the coming years. Meanwhile, the absence of exposure to Softbank Group, which has a large market capitalization in the sector, generated positive results. The stock has been out of favour, mainly as the company's investment exposure to the Chinese technology industry has alienated investors. In the Medical sector, holding of the major pharmaceutical company Daiichi Sankyo rebounded significantly and made a substantial contribution. After a period of underperformance since last year, investors seemed to re-evaluate this pharmaceutical company in light of its promising antibody drug conjugate product pipelines. The lack of exposure to M3 worked positively as well. M3 operates platforms that provide on-line information for doctors and marketing support for pharmaceutical companies. This richly valued stock appeared to face profit-taking activity, probably due to a lack of catalysts for further growth. On the other hand, in the Consumption sector, several overweight positions had negative effects. For example, Nitori, Japan's largest furniture manufacturer and retailer, detracted from the portfolio performance. Nitori had been sluggish as investors apparently have concerns that a prolonged rise in resource prices and a weaker yen could undermine their earnings forecast. In the Infrastructure sector, a lack of exposure to infrastructure stocks such as real estate, construction and transportation sub-industries, detracted from the performance. These domestic demand-oriented companies outperformed under the market trend in favor of lower valuations stocks. The overweight position in Yamato Holdings, Japan's leading provider of door-to-door parcel delivery services, failed to add value. Yamato's share price lost ground probably as investors have concerns that the company might take more time to optimise the cost structure.

Market Outlook

The US economy shrank for a second quarter in a row, but this negative GDP figure was influenced by a number of technical transitory factors, so we do not consider this to be a direct signal that the economy is entering a recession as commonly defined. However, it is also difficult to expect an immediate rebound in US GDP growth. High inflation and rising interest rates are beginning to dampen consumer purchasing power. In China, GDP growth in the second quarter managed only marginal growth of just 0.4% (yoy), making it extremely difficult for the economy to reach the government's growth target of around 5.5% this year. Considering these challenging economic conditions, while we do not believe that excessive monetary policy tightening by major central banks will trigger a global recession directly, we do see the pace of global economic growth diminishing in the coming quarters. Even in such a gloomy economic environment, nevertheless, we expect the Japanese economy to remain relatively resilient.

The main reason for the relatively healthy outlook for the Japanese economy is that Japan is finally ready to resume economic activity in full and to catch up with other developed countries. Although the number of Covid-19 cases in Japan has recently jumped to a record high, the fatality rate has dropped significantly due to the widespread availability of vaccines and treatments. At present, the Japanese government is showing a willingness to prioritise the reopening of the economy without introducing any wide ranging restrictions. Another clear difference from other countries is the Bank of Japan's accommodative monetary policy. With inflation beginning to rise at a moderate rate in Japan, real interest rates have fallen into negative territory, which is expected to have a buoyant effect on the economy.

Moreover, the weaker yen is expected to support the corporate earnings of export-oriented companies. Although it is still too early in the reporting season to summarise the April-June corporate earnings results, earnings trends have been generally steady so far. Despite the impact of the lockdown in China and inventory adjustments in some electronic products, foreign exchange gains have compensated for the negative impact as the yen is trading at much weaker levels than the initial corporate FX rate assumptions. Given the steep fall in prices of commodities such as crude oil and metals over the past few months, the downward swing in procurement costs should also enhance profitability. Investors are concerned about future downward revisions to the market consensus forecast of about 10% recurring profit growth this fiscal year due to the global economic slowdown, but in view of these supportive factors, we believe there is no need to assume any severe earnings downgrades at this time. So far, the weaker yen has led to a deterioration in the investment performance of foreign investors from a base-currency perspective, overshadowing the benefits for corporate fundamentals. Foreign exchange gains, albeit transitory, will strengthen the financial position of companies and provide a source of investment in growth opportunities and shareholder returns, which could lead to improved longer-term investment returns. Earnings of Japanese companies have declined significantly during past economic slowdowns. If, as we expect, a more resilient earnings trend is confirmed despite the current economic slowdown, we believe this will lead to a reassessment of Japanese equities by foreign institutional investors.

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

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