Aviva Investors Select Funds ICVC Value Assessment Report

June 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 28 February 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 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.

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

Share Class	Annualised Net Return as at 28 February 2022 (%)			
	1 Year	3 Year	5 Year	7 Year
Share Class 1 GBP	18.61	9.11	5.38	9.19
Share Class 2 GBP	18.89	9.42	5.80	9.73
Share Class 2 USD	19.14	9.27	5.72	9.69
Share Class 3 GBP	19.32	9.81	6.17	10.12
Share Class 5 GBP	19.07	9.54	-	-
Russell 3000 Value Total Return Index^	19.22	11.77	7.70	11.27

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. Full performance data is available in the Fund Fact Sheet, which can be found here Fund centre - Aviva Investors

The Fund aims to grow your investment by providing combined income and capital growth greater than that of the Russell 3000 Value index^ over the long term (5 years or more), along with delivering an income of at least 125% of the same index over any given 12 month period, in each case before the deduction of fees and taxes.

In the Value Assessment published in June 2021 the Board noted that the Fund's overall performance, relative to its investment objectives, policy and strategy had been disappointing, but also drew attention to the fact that the Fund had maintained a high dividend yield consistently, and therefore investors who had held the Fund primarily for its income generation had benefited from the strategy.

In the year to February 2022, the Fund has delivered a gross return of 19.78%* versus the index return of 19.22%, whilst maintaining the high dividend yield, and this improved performance has continued in the period immediately post the review period.

Whilst the Board notes that performance has improved over the last 12 months, and considers that the Fund has delivered value over the last year, the Fund's performance will continue to be monitored to ensure that this improvement is maintained over the longer term.

A detailed explanation of the last 12 months performance is included in the Fund Manager's Report below. You will also be able to find more detailed information on fund performance within the Fund Fact Sheet on our website.

3. Authorised Fund Manager Costs

Share Class	Fund Management Fee %
Share Class 1	1.00
Share Class 2	0.75
Share Class 3	0.53
Share Class 5	0.55

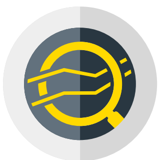
The Fund Management Fee (FMF) is the single charge paid to the Authorised Fund Manager and is considered to be reasonable when taking into account the underlying costs for the services provided and the performance objectives set for the Fund.

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.

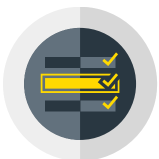
5. Comparable Market Rates

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 28 August 2022 the Fund (share class 1, net of fees) returned of 18.61%*. The Funds benchmark, the Russell® 3000 Value Index^, returned 19.22% over the same period.

The tracking error at the period end was 4.51%

Review

The Biden administration hit the ground running in Q1 2021, both delivering another round of stimulus to sustain and fuel the positive economic momentum that built up in late 2020 and ensuring that the COVID-19 vaccination program proceeds rapidly. Economic activity continued to surge as individuals and businesses across the country worked to recover from the single worst economic event since the Great Depression. The Atlanta Fed's GDPNow, a real-time estimate for the annualized change in economic activity in Q1 2021, pointed toward a +4.7% expansion in the period, and according to Bloomberg, the consensus expectation for 2021 was +6.0% growth. As estimates of economic growth rebounded sharply, so did earnings expectations. According to FactSet, S&P 500 earnings were projected to be up +23.3% year over year in Q1, and earnings for 2021 were expected to top 2019 by 7%.

The economy continued to surge in Q2 2021 as lockdowns eased across the country and the business community continued to rebound from the single worst economic event since the Great Depression. In fact, this dramatic surge in demand strained the global supply chain sufficiently to generate significant inflation pressures which in turn drove concerns the Federal Reserve would be forced to abandon its aggressively easy monetary policy stance. The Atlanta Fed's GDPNow pointed toward an +7.8% expansion in Q2 2021 which would be a healthy acceleration from the +6.4% growth rate reported in Q1. According to FactSet, S&P 500 earnings were projected to snap back +64% versus the lockdown-impaired Q2 2020 – the largest year-over-year increase in earnings since Q4 2009. Based on current projections at the time, calendar 2021 earnings were expected to top 2019 by a healthy +17%.

Q3 proved quite volatile for equity markets as pressure on global supply chains and the U.S. labor market ramped over the summer, leaving companies across the country struggling to meet growing demand amid shortages and rapidly rising costs. In August, the Department of Labor reported there were 10 million job openings, but only 8.6 million unemployed to fill them. Against this backdrop, it is little surprise the Bureau of Labor Statistics reported a +5.3% inflation rate over the past 12 months, the highest reading in more than a decade. In the latter part of the quarter, the Atlanta Fed's GDPNow, a real-time estimate for the annualized change in economic activity, all but collapsed to an estimate of +1.3% growth in Q3, and equity markets followed this estimate lower. Importantly, this moderation in expected economic growth and the continued surge in numerous input costs had not yet worked their way into earnings estimates at the time. In fact, according to FactSet, the projection for aggregate earnings growth for the S&P 500 companies in Q3 has actually accelerated from +24.2% to +27.6% over the last three months. Based on current projections, calendar 2021 earnings were expected to top 2019 by nearly +23%.

According to the U.S. Bureau of Labor Statistics, the Consumer Price Index rose +7.0% in the 12 months ending in December 2021, the largest annual increase in nearly four decades. This surge was largely fueled by the lockdown-induced supply chain disruptions around the globe and increased commodity prices, particularly in Energy where both gasoline and fuel oil prices were up over +40% in the period. While this inflationary impulse was broadly discounted as 'transitory' in its early stages, in Q4 conditions continued to develop in a manner that could fuel a sustained period of elevated price increases. On the demand side of the equation, the Atlanta Fed's GDPNow, a real-time estimate for the annualized change in economic activity, consistently pointed toward robust, +7% to +8%, nominal economic growth in Q4. On the supply side, one of the key elements that underpins strong economic growth – the labor market – tightened substantially. By the end of the quarter, continuing jobless claims had fallen to pre-lockdown levels, average layoff announcements were at an all-time low, average initial unemployment claims were the lowest in more than 50 years, and the labor force participation rate remained largely unchanged for the year. With demand for labor high and supply tight, one would expect the unit price of labor (i.e., wages) to increase, an outcome that was confirmed by both the flood of reports of staffing difficulties and wage increases across the economy and the sharp acceleration in the Average Hourly Earnings and Employment Cost indices.

U.S. equity markets continued to struggle in February as the Russian invasion of Ukraine prompted economic sanctions, disrupted global commodity markets, and sent oil soaring above $100. The increased inflationary impetus certainly adds weight to the Fed's push to raise interest rates in the near term, but so does the conflict, and the resulting spike in input prices increases the risk of recession, or worse yet – stagflation.

In the period, large cap stocks sharply outperformed mid and small cap, as the Russell 1000 returned +13.72% versus +7.07% and -6.01% for the Russell Midcap and Russell 2000, respectively. After lagging in the immediate wake of the COVID-19 vaccine release, value stocks have generally outperformed their growth peers. Among small caps, the Russell 2000 Value outperformed the Russell 2000 Growth by +2,404 bps. Among large caps, the Russell 1000 Value outperformed the Russell 1000 Growth by +244 bps.

The largest positive drivers of relative return were stock selection in Information Technology (+300 bps) and Health Care (+145 bps). The Portfolio holdings in the Information Technology sector tend to be more mature and infrastructure-related and have benefited from the increased spending in the sector without getting caught up in the recent euphoria. This led to broadly strong absolute results for holdings in the sector, despite the negative return for the benchmark sector. The Health Care sector benefited from its holdings in AbbVie Inc. (ABBV, +44%) and Pfizer Inc. (PFE, +45%) both of which were among the highest contributors to active return during the period. In addition, shortly after it was purchased, Cerner Corp. (CERN, +29%) announced it had agreed to be acquired by Oracle Corp. at an attractive premium.

The holdings with the highest contribution to active return in the Portfolio were United Parcel Service Inc. (Cl B) (UPS, +36%), Marathon Petroleum Corp. (MPC, +48%), and AbbVie Inc. (ABBV, +44).

The largest negative drivers of relative return were stock selection in Utilities (-180 bps) and Energy (-91 bps). The underperformance in Utilities was largely driven by the large position in AES Corp. (AES, -18%), which was the largest negative contributor to active return in the period. As an independent power producer, AES can be much more aggressive in its de-carbonization efforts than regulated peers, and we are excited about the future of the firm. In 2021, the company announced concrete plans to fully exit coal generation by 2025, built upon its significant backlog of renewable projects in the U.S. and announced partnerships with large tech companies to help the company meet its own net zero goals. While stock selection in the Energy sector was negative, with a +40% return, the sector was the best performing in the Portfolio on an absolute level. Given the Portfolio's dividend focus, holdings tend to come from the more stable areas of the sector, including transportation and processing, where financial results are much more dependent on volume demanded rather than volatile oil or natural gas prices. Thus, as was the case in the period, we expect the Portfolio sector will tend to be influenced by the benchmark sector but will not swing so wildly.

The holdings with the lowest contribution to active return were AES Corp. (AES, -18%), Comcast Corp. (Cl A) (CMCSA, -10%), and Magna International Inc. (MGA, -10%).

As of February 28, the Portfolio held a total of 47 positions. During the period, we established 9 new positions, eliminated 8.

Outlook

With the prospects of further stimulus all but eliminated, investors face the prospects of both fiscal and monetary tightening in 1H 2022, further inflationary pressure resulting from widening trade disruption, and concerns that this will all weigh on economic growth in the months ahead. Absent a significant uptick in the labor force participation rate in the United States, labor markets will likely remain tight and wage pressure will likely remain elevated. Fortunately, corporate earnings appear to have ended the year strong and could expand in 2022 as companies have generally been successful at passing along these higher costs to date. However, there is a limit to the market's ability to bear higher prices and demand will ultimately suffer. All this near-term uncertainty, coupled with monetary tightening, sets up well for cheaper, higher quality, defensive sectors in the months ahead. Given the recovery in earnings and general strength in balance sheets, we expect that dividend growth will remain robust in 1H 2022 and could even accelerate in the second half of the year if margins remain healthy. With dividends poised to accelerate, value ascendant, and higher quality stocks set to lead, we remain positive about the near-term relative outlook for the Fund.

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

^ London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). FTSE Russell is a trading name of certain of the LSE Group companies. "Russell®" is a trade mark(s) of the relevant LSE Group companies and is/are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

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Aviva Investors US Equity Income Fund (the "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 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 Net Return as at 28 February 2022 (%)			
	1 Year	3 Year	5 Year	7 Year
Share Class 1 GBP	18.08	9.30	5.54	9.37
Share Class 2 GBP	18.37	9.57	5.94	9.91
Share Class 2 USD	18.62	9.50	5.90	9.91
Share Class 3 GBP	18.79	9.96	6.31	10.29
Share Class 5 GBP	18.56	9.69	-	-
Russell 3000 Value Total Return Index^	19.22	11.77	7.70	11.27

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. Full performance data is available in the Fund Fact Sheet, which can be found here Fund centre - Aviva Investors

The Fund aims to grow your investment by providing combined income and capital growth greater than that of the Russell 3000 Value index^ over the long term (5 years or more), along with delivering an income of at least 125% of the same index over any given 12 month period, in each case before the deduction of fees and taxes.

In the Value Assessment published in June 2021 the Board noted that the Fund's overall performance, relative to its investment objectives, policy and strategy had been disappointing, but also drew attention to the fact that the Fund had maintained a high dividend yield consistently, and therefore investors who had held the Fund primarily for its income generation had benefited from the strategy.

In the year to February 2022, the Fund has delivered a gross return of 19.27%* versus the index return of 19.22%, whilst maintaining the high dividend yield, and this improved performance has continued in the period immediately post the review period.

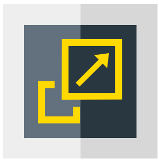
Whilst the Board notes that performance has improved over the last 12 months, and considers that the Fund has delivered value over the last year, the Fund's performance will continue to be monitored to ensure that this improvement is maintained over the longer term.

A detailed explanation of the last 12 month's performance is included in the Fund Manager's Report below. You will also be able to find more detailed information on fund performance within the Fund Fact Sheet on our website.

3. Authorised Fund Manager Costs

Share Class	Fund Management Fee %
Share Class 1	1.00
Share Class 2	0.75
Share Class 3	0.53
Share Class 5	0.55

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.

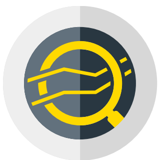


4. Economies of Scale

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.

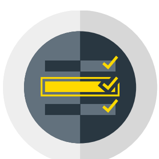
5. Comparable Market Rates

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 28 February 2022 the Fund (share class 1, net of fees) returned of 18.08%*. The Funds benchmark, the Russell® 3000 Value Index^, returned 19.22% over the same period.

The tracking error at the period end was 4.48%

Review

The Biden administration hit the ground running in Q1 2021, both delivering another round of stimulus to sustain and fuel the positive economic momentum that built up in late 2020 and ensuring that the COVID-19 vaccination program proceeds rapidly. Economic activity continued to surge as individuals and businesses across the country worked to recover from the single worst economic event since the Great Depression. The Atlanta Fed's GDPNow, a real-time estimate for the annualized change in economic activity in Q1 2021, pointed toward a +4.7% expansion in the period, and according to Bloomberg, the consensus expectation for 2021 was +6.0% growth. As estimates of economic growth rebounded sharply, so did earnings expectations. According to FactSet, S&P 500 earnings were projected to be up +23.3% year over year in Q1, and earnings for 2021 were expected to top 2019 by 7%.

The economy continued to surge in Q2 2021 as lockdowns eased across the country and the business community continued to rebound from the single worst economic event since the Great Depression. In fact, this dramatic surge in demand strained the global supply chain sufficiently to generate significant inflation pressures which in turn drove concerns the Federal Reserve would be forced to abandon its aggressively easy monetary policy stance. The Atlanta Fed's GDPNow pointed toward an +7.8% expansion in Q2 2021 which would be a healthy acceleration from the +6.4% growth rate reported in Q1. According to FactSet, S&P 500 earnings were projected to snap back +64% versus the lockdown-impaired Q2 2020 – the largest year-over-year increase in earnings since Q4 2009. Based on current projections at the time, calendar 2021 earnings were expected to top 2019 by a healthy +17%.

Q3 proved quite volatile for equity markets as pressure on global supply chains and the U.S. labor market ramped over the summer, leaving companies across the country struggling to meet growing demand amid shortages and rapidly rising costs. In August, the Department of Labor reported there were 10 million job openings, but only 8.6 million unemployed to fill them. Against this backdrop, it is little surprise the Bureau of Labor Statistics reported a +5.3% inflation rate over the past 12 months, the highest reading in more than a decade. In the latter part of the quarter, the Atlanta Fed's GDPNow, a real-time estimate for the annualized change in economic activity, all but collapsed to an estimate of +1.3% growth in Q3, and equity markets followed this estimate lower. Importantly, this moderation in expected economic growth and the continued surge in numerous input costs had not yet worked their way into earnings estimates at the time. In fact, according to FactSet, the projection for aggregate earnings growth for the S&P 500 companies in Q3 has actually accelerated from +24.2% to +27.6% over the last three months. Based on current projections, calendar 2021 earnings were expected to top 2019 by nearly +23%.

According to the U.S. Bureau of Labor Statistics, the Consumer Price Index rose +7.0% in the 12 months ending in December 2021, the largest annual increase in nearly four decades. This surge was largely fueled by the lockdown-induced supply chain disruptions around the globe and increased commodity prices, particularly in Energy where both gasoline and fuel oil prices were up over +40% in the period. While this inflationary impulse was broadly discounted as 'transitory' in its early stages, in Q4 conditions continued to develop in a manner that could fuel a sustained period of elevated price increases. On the demand side of the equation, the Atlanta Fed's GDPNow, a real-time estimate for the annualized change in economic activity, consistently pointed toward robust, +7% to +8%, nominal economic growth in Q4. On the supply side, one of the key elements that underpins strong economic growth – the labor market – tightened substantially. By the end of the quarter, continuing jobless claims had fallen to pre-lockdown levels, average layoff announcements were at an all-time low, average initial unemployment claims were the lowest in more than 50 years, and the labor force participation rate remained largely unchanged for the year. With demand for labor high and supply tight, one would expect the unit price of labor (i.e., wages) to increase, an outcome that was confirmed by both the flood of reports of staffing difficulties and wage increases across the economy and the sharp acceleration in the Average Hourly Earnings and Employment Cost indices.

U.S. equity markets continued to struggle in February as the Russian invasion of Ukraine prompted economic sanctions, disrupted global commodity markets, and sent oil soaring above $100. The increased inflationary impetus certainly adds weight to the Fed's push to raise interest rates in the near term, but so does the conflict, and the resulting spike in input prices increases the risk of recession, or worse yet – stagflation.

In the period, large cap stocks sharply outperformed mid and small cap, as the Russell 1000 returned +13.72% versus +7.07% and -6.01% for the Russell Midcap and Russell 2000, respectively. After lagging in the immediate wake of the COVID-19 vaccine release, value stocks have generally outperformed their growth peers. Among small caps, the Russell 2000 Value outperformed the Russell 2000 Growth by +2,404 bps. Among large caps, the Russell 1000 Value outperformed the Russell 1000 Growth by +244 bps.

The largest positive drivers of relative return were stock selection in Information Technology (+307 bps) and Health Care (+147 bps). The Portfolio holdings in the Information Technology sector tend to be more mature and infrastructure-related and have benefited from the increased spending in the sector without getting caught up in the recent euphoria. This led to broadly strong absolute results for holdings in the sector, despite the negative return for the benchmark sector. The Health Care sector benefited from its holdings in AbbVie Inc. (ABBV, +44%) and Pfizer Inc. (PFE, +45%) both of which were among the highest contributors to active return during the period. In addition, shortly after it was purchased, Cerner Corp. (CERN, +29%) announced it had agreed to be acquired by Oracle Corp. at an attractive premium.

The holdings with the highest contribution to active return in the Portfolio were United Parcel Service Inc. (Cl B) (UPS, +36%), AbbVie Inc. (ABBV, +44%), and Marathon Petroleum Corp. (MPC, +48%).

The largest negative drivers of relative return were stock selection in Utilities (-173 bps) and Energy (-94 bps). The underperformance in Utilities was largely driven by the large position in AES Corp. (AES, -18%), which was the largest negative contributor to active return in the period. As an independent power producer, AES can be much more aggressive in its de-carbonization efforts than regulated peers, and we are excited about the future of the firm. In 2021, the company announced concrete plans to fully exit coal generation by 2025, built upon its significant backlog of renewable projects in the U.S. and announced partnerships with large tech companies to help the company meet its own net zero goals. While stock selection in the Energy sector was negative, with a +40% return, the sector was the best performing in the Portfolio on an absolute level. Given the Portfolio's dividend focus, holdings tend to come from the more stable areas of the sector, including transportation and processing, where financial results are much more dependent on volume demanded rather than volatile oil or natural gas prices. Thus, as was the case in the period, we expect the Portfolio sector will tend to be influenced by the benchmark sector but will not swing so wildly.

The holdings with the lowest contribution to active return were AES Corp. (AES, -18%), Comcast Corp. (Cl A) (CMCSA, -10%), and Magna International Inc. (MGA, -10%).

As of February 28, the Portfolio held a total of 47 positions. During the period, we established 9 new positions, eliminated 12.

Outlook

With the prospects of further stimulus all but eliminated, investors face the prospects of both fiscal and monetary tightening in 1H 2022, further inflationary pressure resulting from widening trade disruption, and concerns that this will all weigh on economic growth in the months ahead. Absent a significant uptick in the labor force participation rate in the United States, labor markets will likely remain tight and wage pressure will likely remain elevated. Fortunately, corporate earnings appear to have ended the year strong and could expand in 2022 as companies have generally been successful at passing along these higher costs to date. However, there is a limit to the market's ability to bear higher prices and demand will ultimately suffer. All this near-term uncertainty, coupled with monetary tightening, sets up well for cheaper, higher quality, defensive sectors in the months ahead. Given the recovery in earnings and general strength in balance sheets, we expect that dividend growth will remain robust in 1H 2022 and could even accelerate in the second half of the year if margins remain healthy. With dividends poised to accelerate, value ascendant, and higher quality stocks set to lead, we remain positive about the near-term relative outlook for the Fund.

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

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