# 2023
# Value Assessment Report

Aviva Investors Funds ACS

It takes Aviva Investors

# Contents

# 1

# Chairmans statement

# Dear Investor,

**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 Report for the year to 31 December 2022.**

This is our fourth 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 continued to make improvements to our fund range over the last 12 months, however, these changes are overshadowed by world events, which continue to create challenges from an investment perspective, whilst also impacting individuals personally as the cost of living crisis affects people's daily lives. We have set out below an overview of the economic environment and subsequent market turmoil which has evolved over the last 12 months, which has had a negative impact on Sub-fund performance over the last year.

In this report we set out how each Sub-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. Once again we have taken the opportunity to implement a number of changes to the review process throughout the year, including to this report. Hopefully you find the introduction of a consolidated report, together with additional information helpful when interpreting the results of this review.

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

**Mark White**
Chairman

*"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"*

# Market Review

**Over the last year we have seen yet more turbulent times, with world events having an impact on both the global and UK economies.**

Following the pandemic, the markets began to regain confidence as global growth prospects looked solid and the economic data continued to reflect the expected easing of the pandemic. Unfortunately, this optimism was derailed at the beginning of 2022 as Russia's invasion of Ukraine triggered huge geopolitical uncertainty, with Europe's energy supplies being brought into question.

This led to soaring energy prices and the sanctions imposed on Russia in response to the invasion caused oil prices to rise, which in turn caused consumer inflation to rise to levels not seen for four decades. The consumer price index appears to have peaked in October finishing the year at 10.5%, from 5.5% at the beginning of the year, largely due to rising energy prices.

This has combined with a significant slowdown in economic growth, as consumer confidence was knocked by the steep rise in the cost of living. The Bank of England tightened policy eight times between December 2021 and December 2022, leaving the base rate at 3.5%. This compared to just 0.1% during the pandemic.

The MSCI World Index, which is widely used to measure global equities was down 8% in sterling terms in the twelve months to December 2022, and the Bloomberg Global Aggregate Corp Index, which is often used to measure fixed income markets, was down over 15% in the same period. Closer to home the FTSE All Share ended the year in positive territory.

Bond markets were exceptionally weak, as UK government bonds (gilts) suffered a major sell-off as investors anticipated an aggressive tightening of monetary policy in response to surging inflation, and corporate bonds have also been valued significantly lower by the weakness of government bonds.

The events described above have had a negative impact on the world's major economies with the result that many Sub-funds under review have delivered negative performance over the year, and a loss for investors. As part of the value assessment, we also measure each Sub-fund's performance against an appropriate benchmark and compare its performance to a peer group of similar funds, which provides market context.

It is important to remember that our investment managers take a long-term view towards investing which remains unchanged despite these challenging conditions. This is a philosophy which has delivered value for our customers in the past.

At an individual Sub-fund level some of the investment decisions taken by our portfolio managers over the last 12 months have also contributed to this underperformance. Specifically as a result of our Environmental Social and Governance (ESG) approach, a number of our Sub-funds do not currently hold traditional energy stocks, as our portfolio managers believe that they do not offer secure long term investment opportunities as we move towards a more sustainable world, and these companies will have to transition away from their existing fossil fuel intensive businesses.

Therefore these Sub-funds have not benefited from the rise in oil and gas prices over the last twelve months, which has hindered their ability to beat their respective benchmarks and deliver positive relative returns, however our portfolio managers believe this decision remains appropriate in the long term, despite the specific factors impacting oil and gas prices over the last 12 months.

The Fund Manager's Report included with each of the Sub-fund reports below, will provide further details on the individual performance of the Sub-funds. This introduction is intended to provide the broader context against which these Sub-funds have been assessed and will be referred back to where it helps explain the performance of individual Sub-funds.

2

# Meet the board

# These are the people responsible for the Value Assessments and ensuring we continue to meet our customer expectations

## Mark White

### Chairman of Aviva Investors UK Fund Services Ltd

**Main responsibilities**

Mark White was appointed Non-Executive Director of Aviva Investors Holdings Ltd with effect from January 2015. Mark is also Non-Executive Chairman of Aviva Investors UK Fund Services Limited appointed in October 2019.

READ FULL BIOGRAPHY HERE

## Barry Fowler

### Chief Executive Officer of Aviva Investors UK Fund Services Ltd

**Main responsibilities**

Barry serves on a number of governance and oversight committees, including our UK management company and chairs the supervisory board of our Luxembourg management company.

READ FULL BIOGRAPHY HERE

## Kate McClellan

### Chief Operating Officer

**Main responsibilities**

As Chief Operating Officer, Kate is responsible for global operations and information technology across the Aviva Investors business.

READ FULL BIOGRAPHY HERE

## Alexa Coates

### Independent Non-Executive Director

**Main responsibilities**

Alexa Coates is an independent non-executive director of Aviva Investors. Alexa was appointed to the Aviva Investors Holdings Limited Board and the Aviva Investors Global Services Limited Board in November 2019.

READ FULL BIOGRAPHY HERE



AVIVA INVESTORS

# These are the people responsible for the Value Assessments and ensuring we continue to meet our customer expectations (continued)

## Mike Craston

### Non-Executive Director of Aviva plc

**Main responsibilities**

Mike is a Non-Executive Director of Aviva plc. In addition, he is Chairman and a non-executive director of Aviva Investors Holdings Limited, responsible for the leadership of the Board. Mike is currently Chair of the Aviva Investors' Boards in the UK and Canada and is director of the Aviva Investors' Board in North America.

READ FULL BIOGRAPHY HERE

## Jane Adamson

### Director of Financial Reporting and Control

**Main responsibilities**

Jane Adamson is the Director of Financial Reporting and Control for Aviva Investors, responsible for Group, Statutory and Regulatory Reporting and Capital Management.

READ FULL BIOGRAPHY HERE

## Martin Bell

### Director of Global Fund Services

**Main responsibilities**

Martin is the Director of Global Funds Services, which brings together the activities of the UK and Luxembourg Management Companies covering all Aviva Investors regulated funds business. Martin serves on a number of boards, including Aviva Investors UK Fund Services Limited and the Luxembourg Management Board.

READ FULL BIOGRAPHY HERE

# 3

# Our approach

# An introduction to Value Assessments

**As Authorised Fund Manager ('AFM') of the Sub-funds, the following sets out our approach to the assessment, and the range of factors considered by the Company's board of directors ('the Board') to determine if 'value' is being provided to investors, and whether costs and charges are justified.**

This exercise is carried out annually in addition to, and in conjunction with, our regular fund reviews.

Those reviews include extensive assessments of service and performance for each Sub-fund, with appropriate action taken where necessary throughout the year. If the result of the value assessment is that the charges paid by investors are not considered to be justified based on the level of service we are providing, appropriate action will be taken.

## Quality of service

We consider the range, nature, extent and quality of services provided directly to investors or undertaken on their behalf, and whether investor's expectations have been met. This includes the services performed by the Company and its suppliers, as well as their reputation, expertise, resources and relative capabilities. The key factors are:

- The quality of the **investment process**, including their trading, risk management, compliance, technology, research and operational processes, and any environmental, social and governance (ESG) factors that are integrated into the investment process.
- The quality of the administrative and investor **services** provided, complaints and data relating to operational accuracy to assess the positioning of Aviva Investors and its products and services over time, in comparison to similar firms.
- The quality and timely delivery of clear **communications**, and the relevance of information provided to investors to help them make informed decisions.

## Performance

We consider whether Sub-fund performance, after the deduction of expenses, is within a reasonable range of outcomes relative to the Sub-fund's objective, policy and strategy when measured over appropriate time periods.

The time horizon that we consider most appropriate to assess performance will be stated within the individual Sub-fund's investment objective or policy, however we also review performance over one, three, five and seven years (or since inception if there is not a full seven year's performance data).

# An introduction to Value Assessments (continued)

Performance is also considered in comparison to the respective Sub-fund's peer group, and whether the Sub-fund operated in accordance with its respective risk limits and investment restrictions.

Sub-fund performance, as measured against its objectives, is assessed in regular governance meetings and this is also taken into account in reaching the conclusions for the value assessment.

If performance is considered unsatisfactory, the following factors may be considered:

- Explanations for any underperformance provided by the investment manager as part of our fund performance governance model.
- 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.

Alternatively, we could consider changing the investment manager or closing the Sub-fund where no other viable options are available or where previous actions have not delivered the desired results.

We provide further information on the specific performance of individual Sub-funds within the Fund Manager Report section of the Value Assessment, covering the period relevant to that report.

## Authorised Fund Manager costs & charges

We consider whether our charges are reasonable, taking into account the underlying costs we incur for the services provided, and the performance objectives of each Sub-fund.

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 Fund Administrator
- the fees and expenses of the Auditor
- the permitted costs in connection with periodic statements and accounts
- FCA fees

To assist with the value assessment, we use a costs and charges model to assess the costs applicable to each Sub-fund. The model is refreshed semi-annually and provides analysis of all elements of cost that are attributable to each Sub-fund. This helps us to determine whether the costs allocated to each Sub-fund are fair based on the costs of services provided for the relevant unit class, with an appropriate allowance for the income earned by the Company from these activities.

# An introduction to Value Assessments (continued)

## Economies of scale

We consider whether we have been able to achieve any savings or benefits as a result of the size of the Sub-fund, referred to here as "Economies of Scale", and whether investors have benefited appropriately.

In particular, we consider whether economies of scale have been achieved in relation to the costs and operating expenses of each unit class and the extent to which investors should benefit from financial savings that result.

For example, we will consider whether any charges fairly reflect 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 the supplier provides services for, allowing us to obtain favourable rates.

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

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

We may also consider it appropriate to reinvest cost savings directly into the Company, to finance product development, or retain savings for commercial reasons.

## Comparable market rates

We consider whether fees paid for each unit class are reasonable compared to similar Sub-funds and unit classes in the market by benchmarking each fund against a suitable peer group. The data used for the comparison is supplied by an independent data provider.

Direct comparisons of the individual fees may be difficult because information is not generally publicly available and is affected by numerous factors. As noted, the underlying expenses paid by the Sub-funds are routinely reviewed and this component is focused on the overall fee for a unit class in comparison to a suitable peer group.

Where the total charges are greater than the average cost of equivalent peer group funds, we will review the fees and consider whether an adjustment can be made to our fee.

## Comparable services

We consider whether the fees charged by Aviva Investors for services it performs for the Sub-fund are consistent with those charged throughout the Aviva Group. This considers similar Sub-funds or services operated by both Aviva Investors and the wider Aviva Group that are available in the UK, are of a comparable size, and are managed to similar objectives and policies.

# An introduction to Value Assessments (continued)

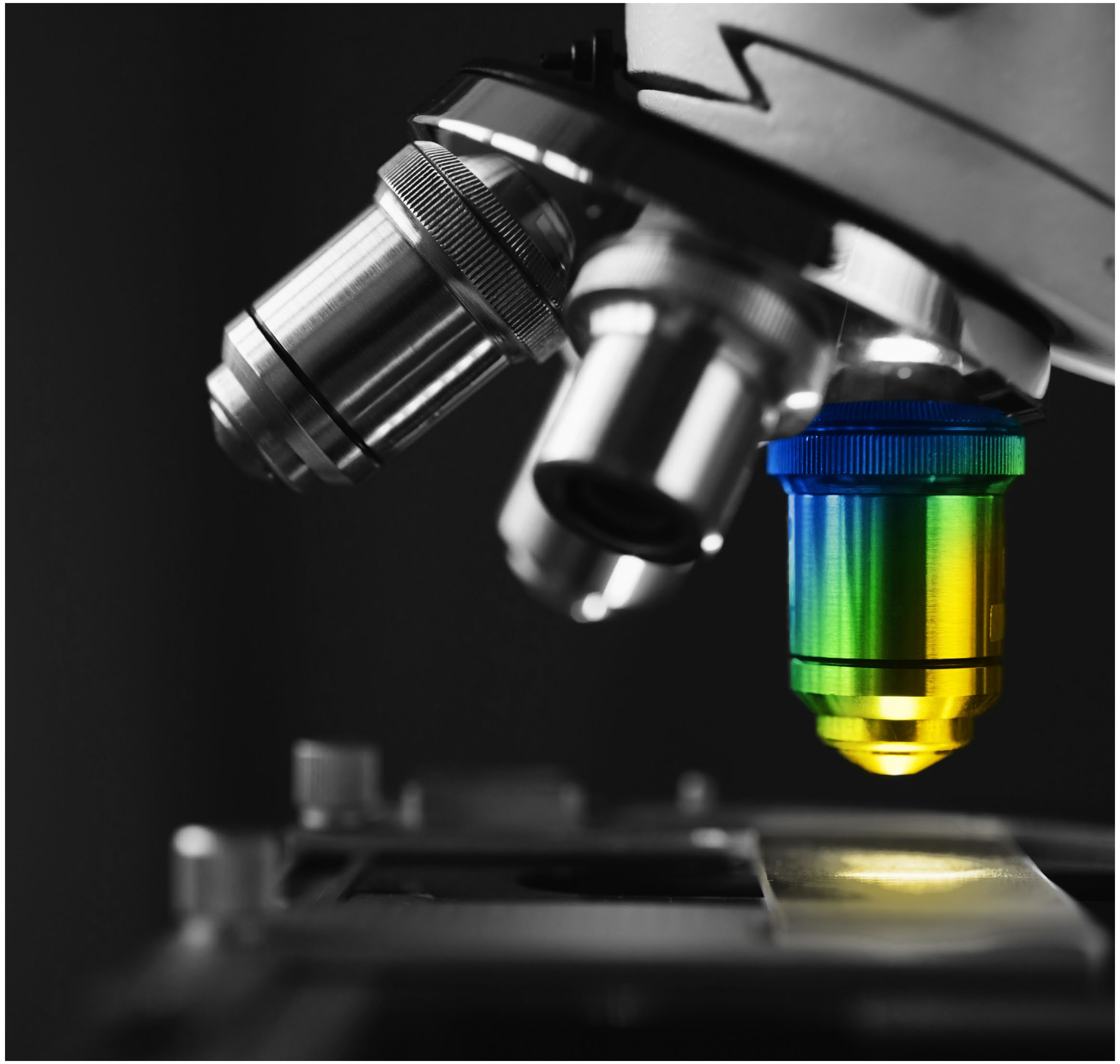
## Classes of units

We assess whether investors hold units in the most appropriate unit class, in terms of the service offered, entry criteria and fees applied.

We routinely carry out an assessment of whether investors hold units in the most appropriate unit class.

## Other factors

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



4

# Aviva Investors Fund Reports



AVIVA INVESTORS

# 4.01

# Aviva Investors Asia Pacific ex Japan Fund

# Aviva Investors Asia Pacific ex Japan Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | -7.71 | 3.89 | 4.26 | – | 4.51 |
| **ACS Acc (Class 1)** | -7.70 | – | – | – | -8.90 |
| **ACS Acc (Class 2)** | -7.70 | – | – | – | -8.90 |
| **UK Corporate Acc** | – | – | – | – | 3.45 |
| **Insured Pension Acc** | – | – | – | – | 3.45 |
| **UK Corporate Inc** | -7.74 | 3.84 | 4.28 | 10.24 | – |
| **Insured Pension Inc** | -7.68 | 3.86 | 4.30 | 10.25 | – |
| **MSCI AC Asia Pacific ex Japan TR GBP**[2] | -6.75 | 2.91 | 2.79 | 9.08 | – |

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

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

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

# Aviva Investors Asia Pacific ex Japan Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Aviva Investors Asia Pacific ex Japan Fund (continued)

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned of -7.7%* (net of fees). The Sub-fund's benchmark, the MSCI® All Country Asia Pacific ex Japan Total Return[2], returned -6.8% over the same period.

### Portfolio Review

Positive stock selection in Hong Kong and positive allocation to Australia (overweight) were the key contributors to relative performance, while this was offset by weak stock selection in Taiwan.

In Hong Kong, our overweight exposure to Swire Pacific was the largest contributor to relative performance on expectations that a border reopening with China will benefit its underlying businesses of Swire Properties and Cathay Pacific. The company also announced a share buyback programme along with a 15% dividend per share hike during the year which was higher than what the market expected. In Australia, our overweight exposure to Rio Tinto also performed strongly on the back of buoyant iron ore prices and as the company is expected to benefit from meaningful property stimulus in China. Our overweight position in Incitec Pivot also did well over the year on a tight fertiliser market on both the demand and supply side, with the latter being driven by the ongoing Russia-Ukraine conflict and export bans by China.

Conversely, our overweight position in James Hardie was a key detractor from relative performance on market concerns over a slowdown in the US housing market given rising interest rates. In Korea, our overweight position in Naver also underperformed on downbeat advertising and e-commerce spend in Korea, while margins have declined given a higher proportion of new loss-making businesses. Our overweight exposure to select technology names (e.g. Mediatek, Novatek, Samsung Electronics) also detracted value given market concerns on a slowing technology cycle over the year.

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

During the final weeks of 2022, China had decisively shifted away from zero Covid towards a gradual re-opening. Whilst we still see medium-term structural growth challenges for China, on a tactical basis, we see building re-opening momentum as likely reducing property sector-related tail risks. We have continued to add to travel and consumption names and would look to add to our China exposure on weakness.

Outside of China, we are seeing datapoints that suggest that inflation is decelerating. If this is sustained, market expectations for a peak in interest rates are plausible towards the second half of the year. A less hawkish Federal Reserve view on interest rates would create an environment for a growth deceleration or a milder recession as opposed to a hard landing. In Asia, we are likely to see a milder economic slowdown as the aforementioned China re-opening is likely to reduce the likelihood of regional recessionary outcomes. This environment remains supportive for bank loan growth and at the same time, sustained higher net interest margins and interest income into late-2023. We remain positive on our bank holdings across the region.

For a few regional economies such as Thailand and Hong Kong, the re-opening of China is a major positive given these economies' high leverage to Chinese tourism. Southeast Asia had held up well during China's zero-Covid policy, but with the ongoing re-opening and relatively full valuations in the region, we see better risk-reward opportunities elsewhere.

The technology sector has seen a tremendous growth deceleration after a period of strong growth. Elevated inflation and Fed tightening has resulted in a sharp decline in consumption and accumulating inventory across consumer technology. We had earlier lowered our technology exposure across memory, foundry, and fabless semiconductor names. Currently, we are broadly neutral across the Korean and Taiwan technology sector. Many of the companies that we own here are strong technological leaders in fairly consolidated industries that we have conviction will outperform when the cycle turns. Valuations today are likely discounting a period of weaker sales, inventory accumulation and softer margins. Whilst we are likely still a quarter or two from cycle lows, we are inclined to start rebuilding positions on further weakness.

**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.**

# 4.02

# Aviva Investors Balanced Life Fund



AVIVA INVESTORS

# Aviva Investors Balanced Life Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years |
|---|---|---|---|---|
| **UK Corporate Inc** | -11.29 | 2.15 | 2.57 | 5.12 |
| **UK GBP 3 Month LIBOR / SONIA Plus 4%^** | 5.41 | 4.59 | 4.66 | 4.59 |

Performance basis: Month end returns, Mid to mid, net income reinvested, net of ongoing charges and fees, net of tax payable by the Sub-fund. The figures do not include the effect of any exit or entry charge.
^On 1st December 2021 the Fund benchmark was changed from LIBOR to SONIA (Sterling Overnight Index Average)

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

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

# Aviva Investors Balanced Life Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -11.3%* (net of fees). The Sub-fund's benchmark, SONIA (+4%), returned 5.4% over the same period.

### Portfolio Review

The first quarter was a difficult start to the year - investors were already contending with slowing global growth, continued elevated inflation and impending tightening from the US Federal Reserve (Fed) before Russia invaded Ukraine. The defensive actions we had taken at the start of the year to address the economic factors helped to protect the portfolio as markets reacted to the invasion. Russian aggression shocked the world and is having a significant humanitarian impact. This fed through into markets, with equity markets falling and bond yields rising as investors assessed the potential economic impact of sanctions on Russia. Alternative assets added to performance, driven by commodities, while equities and fixed income assets detracted. Having started the quarter with cautious on equities, we reduced our weighting over the period and shifted to a more diversified stance. To be consistent with an environment of rising rates, we reduced our exposure to high yield debt in January and have turned more negative on investment grade debt, trimming exposure here also.

In the second quarter, markets continued to be caught in the cross currents of concerns about rate increases and worries about recessionary risks, against this backdrop, equities fell and bond markets were under pressure. We remain positioned for a stagflationary environment (in other words, an economic environment in which growth is low while inflation is rising), continuing to reduce our exposure to equities in favour of diversifying alternatives.

Equities and bond markets remained under pressure in the third quarter, as investors eyed inflation with caution and growth prospects deteriorated. We continued to remain defensively positioned for this stagflationary environment, maintaining a lower weight to both equities and fixed income. Over this period, gains in US equities and high yield debt were not able to offset losses in currency and other fixed income assets. Alternative assets edged into positive territory, with our momentum strategy adding value.

In the final quarter, equity markets were stronger, bond yields were higher and credit spreads tighter. Against this backdrop, the portfolio generated a positive return, as solid gains from equities, offset losses from both fixed income and alternatives. Portfolio activity centred on tactically adding to return seeking assets on the view that interest rate volatility was subsiding, as we moved closer to the peak in US rates. This view was also supported by weaker US inflation prints. We tactically increased Japanese and emerging market equities, since valuations are supportive in both regions relative to the US. In particular, Japan has benefited from the reopening of its boarders and a solid domestic economy. On the government bond axis, we reduced our bias to US in favour of UK bonds. With central banks still in play and the risk of recession on the horizon, we balanced the portfolio cyclicality by reducing US equities.

After a dismal 2022 for global markets, we think there are grounds for cautious optimism as we enter 2023. Although the coming year is expected to be one of recession for advanced economies, businesses, consumers and markets seem to have adjusted to this prospect. The mindsets of investors have moved from "denial" to "acceptance" in terms of their expectations of central bank hikes and market expectations now look more reasonable. That said, it won't be plain sailing from here; inflation risks persist, corporate earnings forecasts need to come down to properly reflect a recession and geopolitical risk is never far away. Nonetheless, the cycle has moved on over the year, interest rate volatility is subsiding, a lot of bad news is priced in to some markets and therefore dispersion in valuations is wider. This is good terrain for flexible active multi-asset strategies like ours.

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

# 4.03

# Aviva Investors Balanced Pension Fund

# Aviva Investors Balanced Pension Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Corporate Acc** | -10.96 | 2.26 | – | – | 3.24 |
| **Insured Pension Inc** | -10.94 | 2.19 | 2.69 | 5.18 | – |
| **UK GBP 3 Month LIBOR / SONIA Plus 4%^** | 5.41 | 4.59 | 4.66 | 4.59 | – |

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

^On 1st December 2021 the Fund benchmark was changed from LIBOR to SONIA (Sterling Overnight Index Average)

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

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

# Aviva Investors Balanced Pension Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -11.0%* (net of fees). The Sub-fund's benchmark, SONIA (+4%) returned 5.4% over the same period.

### Portfolio Review

The first quarter was a difficult start to the year - investors were already contending with slowing global growth, continued elevated inflation and impending tightening from the US Federal Reserve (Fed) before Russia invaded Ukraine. The defensive actions we had taken at the start of the year to address the economic factors helped to protect the portfolio as markets reacted to the invasion. Russian aggression shocked the world and is having a significant humanitarian impact. This fed through into markets, with equity markets falling and bond yields rising as investors assessed the potential economic impact of sanctions on Russia. Alternative assets added to performance, driven by commodities, while equities and fixed income assets detracted. Having started the quarter with cautious on equities, we reduced our weighting over the period and shifted to a more diversified stance. To be consistent with an environment of rising rates, we reduced our exposure to high yield debt in January and have turned more negative on investment grade debt, trimming exposure here also.

In the second quarter, markets continued to be caught in the cross currents of concerns about rate increases and worries about recessionary risks, against this backdrop, equities fell and bond markets were under pressure. We remain positioned for a stagflationary environment (in other words, an economic environment in which growth is low while inflation is rising), continuing to reduce our exposure to equities in favour of diversifying alternatives.

Equities and bond markets remained under pressure in the third quarter, as investors eyed inflation with caution and growth prospects deteriorated. We continued to remain defensively positioned for this stagflationary environment, maintaining a lower weight to both equities and fixed income. Over this period, gains in US equities and high yield debt were not able to offset losses in currency and other fixed income assets. Alternative assets edged into positive territory, with our momentum strategy adding value.

In the final quarter, equity markets were stronger, bond yields were higher and credit spreads tighter. Against this backdrop, the portfolio generated a positive return, as solid gains from equities, offset losses from both fixed income and alternatives. Portfolio activity centred on tactically adding to return seeking assets on the view that interest rate volatility was subsiding, as we moved closer to the peak in US rates. This view was also supported by weaker US inflation prints. We tactically increased Japanese and emerging market equities, since valuations are supportive in both regions relative to the US. In particular, Japan has benefited from the reopening of its boarders and a solid domestic economy. On the government bond axis, we reduced our bias to US in favour of UK bonds. With central banks still in play and the risk of recession on the horizon, we balanced the portfolio cyclicality by reducing US equities.

After a dismal 2022 for global markets, we think there are grounds for cautious optimism as we enter 2023. Although the coming year is expected to be one of recession for advanced economies, businesses, consumers and markets seem to have adjusted to this prospect. The mindsets of investors have moved from "denial" to "acceptance" in terms of their expectations of central bank hikes and market expectations now look more reasonable. That said, it won't be plain sailing from here; inflation risks persist, corporate earnings forecasts need to come down to properly reflect a recession and geopolitical risk is never far away. Nonetheless, the cycle has moved on over the year, interest rate volatility is subsiding, a lot of bad news is priced in to some markets and therefore dispersion in valuations is wider. This is good terrain for flexible active multi-asset strategies like ours.

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

# 4.04

# Aviva Investors Cautious Pension Fund

# Aviva Investors Cautious Pension Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Corporate Acc** | -10.35 | 1.26 | – | – | 2.33 |
| **Insured Pension Inc** | -10.31 | 1.23 | 1.84 | 4.22 | – |
| **UK GBP 3 Month LIBOR / SONIA Plus 2.5%^** | 3.91 | 3.09 | 3.16 | 3.10 | – |

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

^On 1st December 2021 the Fund benchmark was changed from LIBOR to SONIA (Sterling Overnight Index Average)

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

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

# Aviva Investors Cautious Pension Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -10.3%* (net of fees). The Sub-fund's benchmark, the SONIA (+2.5%), returned 3.9% over the same period.

### Portfolio Review

The first quarter was a difficult start to the year - investors were already contending with slowing global growth, continued elevated inflation and impending tightening from the US Federal Reserve (Fed) before Russia invaded Ukraine. The defensive actions we had taken at the start of the year to address the economic factors helped to protect the portfolio as markets reacted to the invasion. Russian aggression shocked the world and is having a significant humanitarian impact. This fed through into markets, with equity markets falling and bond yields rising as investors assessed the potential economic impact of sanctions on Russia. Alternative assets added to performance, driven by commodities, while equities and fixed income assets detracted. Having started the quarter cautious on equities, we reduced our weighting over the period and shifted to a more diversified stance. To be consistent with an environment of rising rates, we have turned more negative on investment grade debt, trimming exposure here in February.

In the second quarter, markets continued to be caught in the cross currents of concerns about rate increases and worries about recessionary risks, against this backdrop, equities fell and bond markets were under pressure. We remain positioned for a stagflationary environment (in other words, an economic environment in which growth is low while inflation is rising), continuing to reduce our exposure to equities and credit in favour of diversifying alternatives.

Equities and bond markets remained under pressure in the third quarter, as investors eyed inflation with caution and growth prospects deteriorated. We continued to remain defensively positioned for this stagflationary environment, maintaining a lower weight to both equities and fixed income. Over this period, gains in US equities and high yield debt were not able to offset losses in currency and other fixed income assets. Alternative assets edged into positive territory, with our momentum strategy adding value.

In the final quarter, equity markets were stronger, bond yields were higher and credit spreads tighter. Against this backdrop, the portfolio generated a positive return, as solid gains from equities, offset losses from both fixed income and alternatives. Portfolio activity centred on tactically adding to return seeking assets on the view that interest rate volatility was subsiding, as we moved closer to the peak in US rates. This view was also supported by weaker US inflation prints. We tactically increased UK and Japanese equities, since valuations are supportive in both regions relative to the US. In particular, Japan has benefited from the reopening of its boarders and a solid domestic economy. We also took the opportunity to increase local emerging market debt, but with central banks still in play and the risk of recession on the horizon, we balanced cyclicality of these positions by reducing US equities.

After a dismal 2022 for global markets, we think there are grounds for cautious optimism as we enter 2023. Although the coming year is expected to be one of recession for advanced economies, businesses, consumers and markets seem to have adjusted to this prospect. The mindsets of investors have moved from "denial" to "acceptance" in terms of their expectations of central bank hikes and market expectations now look more reasonable. That said, it won't be plain sailing from here; inflation risks persist, corporate earnings forecasts need to come down to properly reflect a recession and geopolitical risk is never far away. Nonetheless, the cycle has moved on over the year, interest rate volatility is subsiding, a lot of bad news is priced in to some markets and therefore dispersion in valuations is wider. This is good terrain for flexible active multi-asset strategies like ours.

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

# 4.05

# Aviva Investors Climate Transition Real Assets Fund

# Aviva Investors Climate Transition Real Assets Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

| Performance: Annualised net return (%) | | |
|---|---|---|
| | 1 Year | Since Launch |
| **UK Corp Acc Units** | -18.93 | -16.74 |
| **UK Ins Pen Acc Units** | -18.93 | -16.74 |

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

The Sub-fund launched in September 2021 with the aim of providing a combination of income and growth, targeting an overall GBP return (after charges) of 8% per annum on a rolling 5-year basis, through exposure to a diversified portfolio of real assets focusing on climate transition.

Over the year to 31 December 2022, the Sub-fund experienced a decline in value of 18.9%. A number of factors have contributed to this, for example, rising interest rates have a direct impact on the discount rates used to value the underlying assets, and the introduction of a temporary Energy 'windfall tax' on electricity generators in the Autumn Statement has also impacted the valuation of some of the underlying holdings in the Sub-fund.

Although these economic headwinds are challenging, they also create opportunities for the future deployment of undrawn capital, through the acquisition of new assets at significant discounts. The Sub-fund is also still in the process of drawing down investor's initial commitments, and therefore creating a diversified portfolio, which can equally incur significant upfront costs and in turn impact on performance.

Therefore the Board considers that the Sub-fund's overall performance can only be properly evaluated once the initial capital is fully drawn, and the portfolio is fully diversified, which for a fund such as this can take several years.

# Aviva Investors Climate Transition Real Assets Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Aviva Investors Climate Transition Real Assets Fund (continued)

## Fund Managers Report

The Climate Transition Real Assets Fund continues to make good progress in committing investor capital to investments as we build the portfolio in line with our objective to deliver attractive risk-adjusted returns from a diversified portfolio of real assets focussed on the climate transition.

### Performance

Over the Period ended 31 December 2022, the Sub-fund returned -18.9% (net of fees). The Sub-fund has a net 8% IRR target over a rolling five-year period and aims to achieve net zero in 2040.

### Review

During Q1 the Fund committed to four further investments meaning a total of £338m of equity has now been legally committed to nine transactions across five of the sub-fund strategies, with £165m of this drawn down from investors. The Fund made its first investment into private equity with a £10m commitment to the Clean Growth Fund, a venture capital fund which invests into early-stage companies focussed on developing and commercialising clean technologies. As well as aligning with the Fund's objective to accelerate the climate transition, this investment should deliver an attractive risk-adjusted return, diversify our other investments, as well as providing strategic benefits through access to future co-investment opportunities.

Within the Euro Real Estate Fund, we have bought an option to acquire land with the potential to develop 200k sqm of modern logistics warehousing to the south of Stockholm. The site is in a strategic location for last-mile deliveries and the design will integrate our climate objectives through the inclusion of electric heat pumps, LED lighting and EV charging infrastructure.

The Fund also made two further investments into fibre optic broadband within the GBP Infrastructure Fund, committing £55m to each of County Broadband and ITS. County, like our previous investment Truespeed, focuses on rolling out fibre networks to underserved rural communities, whereas ITS focuses on business customers in urban locations.

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

As at the end of Q2 a total of £401m of equity has been legally committed to 12 transactions across six of the sub-fund strategies, with £196m of this drawn from investors.

During the quarter the GBP Real Estate Fund made a second commitment into Build to Rent single family housing as part of the platform established with Packaged Living, with an agreement to build 173 homes in Ipswich town centre in Suffolk. As well as aligning with the Fund's climate objectives through the delivery of Energy Performance Certificate A-rated and fossil-fuel free homes, the investment should generate an attractive level of return in a lower-risk real estate sector that benefits from strong supply and demand fundamentals.

The Euro Real Estate Fund has also made two new investments within the Danish retail sector. The Fund has entered an agreement to acquire a portfolio of seven well-located and pre-let supermarkets in and around Copenhagen in Denmark. The supermarkets are currently under development and will be purchased at completion with the benefit of 15-year leases to major supermarket chains. The assets will incorporate strong ESG design features such as heat recovery technology and use of district heating resulting in an energy label A rating.

The Fund also agreed terms to acquire a fully-let retail park situated in a major retail destination within the Jutland region of Denmark, with completion occurring shortly after quarter end. The asset benefits from a strong income yield and opportunities to further improve the ESG credentials of the energy label A-rated building.

As at the end of Q3 a total of £461m of equity has now been legally committed to 13 transactions across six of the sub-fund strategies, with £249m of this drawn from investors.

During the quarter the GBP Infrastructure Fund made a £30m commitment to Connected Kerb, a UK growth company specialising in the manufacture, building and operation of Electric Vehicle charging infrastructure in the UK. Connected Kerb primarily focus on local authority contracts for municipal charging points in council car parks and on-street locations and the investment is expected to deliver an attractive return, backed by a management team with a strong track record in the sector. The commitment will fund the roll out of the company's growing network and the Fund has an option to fund a further £80m. Alongside the transition alignment of enabling more EV charging usage, the company has a strong ESG focus and manufactures all its charging points in the UK using recycled materials.

# Aviva Investors Climate Transition Real Assets Fund (continued)

The third quarter proved to be a very turbulent period for financial markets as assets repriced in response to a rising inflation and interest rate environment. The real estate and infrastructure markets which the Climate Transition Real Assets Fund focuses on are in a period of price discovery and the Fund delivered a net return of -4.22% for the quarter, reflecting a rerating of existing assets. Whilst we do anticipate some further repricing, particularly of existing real estate holdings due to their sensitivity to interest rates, this changing market environment will also create opportunity for capital deployment at attractive levels of risk-adjusted return. Over the medium term we expect the strong fundamentals of the investments made to date to deliver robust income growth and strong total returns in line with the performance target of the Fund

As at the end of Q4 a total of £452m of equity had been legally committed to 12 transactions across six of the sub-fund strategies, with £282m of this drawn from investors.

There were no new transactions during the quarter, though the Euro Real Estate Fund acquired the first of six supermarkets in and around Copenhagen as the development reached completion. The 1200sqm asset – located in Gilleleje, north of Copenhagen – benefits from a 15-year index-linked lease to major Danish grocery retailer Netto and incorporates strong ESG design features (such as the use of district heating) which result in an energy label A rating.

In Q4, the Euro Real Estate Fund also allowed an option to acquire industrial development land to the south of Stockholm, Sweden, to lapse. The Fund took the view that it was no longer economical to proceed on the terms previously agreed given recent real estate market movements.

The second half of 2022 proved to be a very volatile period for financial markets as assets rapidly repriced in response to a rising inflation and interest rate environment. Real estate markets have experienced marked capital value decline of more than 20% in the UK, with similar adjustments following in Europe. Our real estate investments are no exception and have experienced repricing in line with the higher yield environment. In particular we have seen the Curtain House development asset and the levered Foz office investment re-rate in response to the market shift.

Infrastructure markets have generally proved more resilient given a general positive correlation with inflation together with ongoing demand for green assets. Our fibre broadband investments have experienced some short-term volatility in valuations due to higher inflation and a slower roll-out, but we do not expect any permanent loss of value as a result of higher interest rates. Our investments into forestry and climate-aligned private equity both benefit from strong structural tailwinds and performance has been largely unaffected by current macroeconomic volatility.

Overall the Fund delivered a net return of -18.7% during the quarter, reflecting this rerating of existing holdings, though our focus on investments with strong fundamentals and transition-alignment means we still expect them to deliver strong medium-term performance. The market repricing is also creating opportunities to deploy new capital at attractive levels of risk-adjusted return.

The Fund return, portfolio composition and ESG metrics are the key performance indicators that we will report on to investors. They currently reflect a Fund in ramp-up and we expect them to become more meaningful over time.

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

# 4.06

# Aviva Investors Distribution Life Fund

# Aviva Investors Distribution Life Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years |
|---|---|---|---|---|
| **UK Corporate Inc** | -9.80 | 1.44 | 2.87 | 6.01 |
| **UK GBP 3 Month LIBOR / SONIA Plus 2.5%^** | 3.91 | 3.09 | 3.16 | 3.10 |

Performance basis: Month end returns, Mid to mid, net income reinvested, net of ongoing charges and fees, net of tax payable by the Sub-fund. The figures do not include the effect of any exit or entry charge.
^On 1st December 2021 the Fund benchmark was changed from LIBOR to SONIA (Sterling Overnight Index Average)

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

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

# Aviva Investors Distribution Life Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Aviva Investors Distribution Life Fund (continued)

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -9.8%* (net of fees). The Sub-fund's benchmark, SONIA +2.5% returned of 3.9% over the same period.

### Portfolio Review

The first quarter was a difficult start to the year - investors were already contending with slowing global growth, continued elevated inflation and impending tightening from the US Federal Reserve (Fed) before Russia invaded Ukraine. The defensive actions we had taken at the start of the year to address the economic factors helped to protect the portfolio as markets reacted to the invasion. Russian aggression shocked the world and is having a significant humanitarian impact. This fed through into markets, with equity markets falling and bond yields rising as investors assessed the potential economic impact of sanctions on Russia. Alternative assets added to performance, driven by commodities, while equities and fixed income assets detracted. Having started the quarter cautious on equities, we reduced our weighting over the period and shifted to a more diversified stance. To be consistent with an environment of rising rates, we have turned more negative on investment grade debt, trimming exposure here in February.

In the second quarter, markets continued to be caught in the cross currents of concerns about rate increases and worries about recessionary risks, against this backdrop, equities fell and bond markets were under pressure. We remain positioned for a stagflationary environment (in other words, an economic environment in which growth is low while inflation is rising), continuing to reduce our exposure to equities and credit in favour of diversifying alternatives.

Equities and bond markets remained under pressure in the third quarter, as investors eyed inflation with caution and growth prospects deteriorated. We continued to remain defensively positioned for this stagflationary environment, maintaining a cautious weight to both equities and fixed income. Over this period, returns from our growth and income equities allocation cushion some loses from corporate bonds and currencies. UK government bonds suffered after the UK government's mini-budget announcement shook markets.

In the final quarter, equity markets were stronger, bond yields were higher and credit spreads tighter. Against this backdrop, the portfolio generated a positive return, as solid gains from equities and corporate bonds, offset losses from government bonds. Portfolio activity centred on be more discerning and selective on our asset allocation on the view that interest rate volatility was subsiding, as we moved closer to the peak in US rates. This view was also supported by weaker US inflation prints. We tactically rotated away from our global equities into emerging market and UK equities since valuations are supportive in both regions relative to the US. On the government bond axis, we reduced our bias to US in favour of UK bonds. We also took the opportunity to increase local emerging market debt, but with central banks still in play and the risk of recession on the horizon, we balanced cyclicality of these positions by reducing US equities.

After a dismal 2022 for global markets, we think there are grounds for cautious optimism as we enter 2023. Although the coming year is expected to be one of recession for advanced economies, businesses, consumers and markets seem to have adjusted to this prospect. The mindsets of investors have moved from "denial" to "acceptance" in terms of their expectations of central bank hikes and market expectations now look more reasonable. That said, it won't be plain sailing from here; inflation risks persist, corporate earnings forecasts need to come down to properly reflect a recession and geopolitical risk is never far away. Nonetheless, the cycle has moved on over the year, interest rate volatility is subsiding, a lot of bad news is priced in to some markets and therefore dispersion in valuations is wider. This is good terrain for flexible active multi-asset strategies like ours.

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

# 4.07

# Aviva Investors Europe Equity ex UK Core Fund

# Aviva Investors Europe Equity ex UK Core Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

It should be noted that this Sub-fund launched on 2 November 2022, so this assessment has been completed with limited reference data. The conclusions are, therefore, in a large part dependent upon the product feasibility assessment that was completed prior to launch which evidenced that the Sub-fund's long term objective and fees were appropriate for a fund with this strategy.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.



AVIVA INVESTORS

# Aviva Investors Europe Equity ex UK Core Fund (continued)

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

**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.**

# 4.08

# Aviva Investors Europe Equity ex UK Fund



AVIVA INVESTORS

# Aviva Investors Europe Equity ex UK Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that due to the performance issues detailed within the Performance section, value has not been delivered to the majority of investors, and we are working with the investors to agree a suitable remediation plan.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | -10.43 | 4.21 | 3.27 | – | 2.89 |
| **ACS Acc (Class 1)** | -10.25 | 4.32 | – | – | 3.95 |
| **ACS Acc (Class 2)** | -10.25 | 4.35 | – | – | 3.95 |
| **UK Corporate Inc** | -10.25 | 4.31 | 3.42 | 7.99 | – |
| **Insured Pension Inc** | -10.17 | 4.34 | 3.46 | 8.13 | – |
| **FTSE Developed Europe ex UK TR GBP**[1] | -7.49 | 5.78 | 5.34 | 8.92 | – |

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

# Aviva Investors Europe Equity ex UK Fund (continued)

The Sub-fund aims to grow your investment over the long term (5 years or more) by investing in shares of European companies, excluding the UK, whilst the Sub-fund's performance is compared against the FTSE® Developed Europe ex UK Total Return Index.

In the Value Assessment published in April 2022 the Board considered that the Sub-fund had not delivered value to the majority of investors, and despite actions taken by the portfolio manager to improve performance over the previous year, the Board concluded that a strategic review would be undertaken to determine whether further changes were required to the management of the Sub-fund.

The strategic review resulted in a number of recommendations being made to improve outcomes for investors, and these are currently being discussed with the Sub-fund's investors to determine the most appropriate course of action.

Despite this, the Sub-fund has had another disappointing 12 months, delivering negative absolute returns of 10.25%, which are in part a result of the challenging market conditions we are currently experiencing across all markets, however having underperformed the benchmark by 2.76%, this remains unsatisfactory.

The Board therefore consider that the Sub-fund has not delivered value to the majority of investors and will work closely with investors to agree a suitable remediation plan, which will be communicated in due course.

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

# Aviva Investors Europe Equity ex UK Fund (continued)

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -10.4%* (net of fees). The Sub-fund's benchmark, the FTSE® Developed Europe (ex UK) index[1], returned -7.5% over the same period.

### Portfolio Review

The war in the Ukraine, subsequent energy crisis, supply chain disruption, rising inflation, and consequent fears about the outlook for economic growth have weighed on European equity returns in aggregate. Contrarian positioning and a material allocation to conventional energy names was needed in 2022 for European active managers to post positive returns. In fact, both bonds and equities combined posted their worst return in decades.

Turning to portfolio performance, larger share price drawdowns particularly amongst some of the established small and mid sized companies held in the fund weighed on performance. Equally, the lower allocation larger sized healthcare companies weighed on relative returns, given their outperformance in this period. Not exposing the portfolio to large Swiss pharmaceuticals like Roche and Novartis aided a lower allocation than the benchmark in totality to Switzerland and the Swiss Franc. The Swiss Franc's strength in the period consequently weighed on relative performance.

One sizeable detractor from performance in the portfolio was industrials firm Kion Group. We were attracted to Kion Group because of their leading position as a forklift manufacturer as well as their automation warehouse capabilities. Given its e-commerce exposure, the company has suffered from cyclical weakness and supply chain pressures. We had concerns it would take time to work through its order backlog together with managing cost increases impacting profitability and balance sheet strength. These risks led us to exit our position.

# Aviva Investors Europe Equity ex UK Fund (continued)

The gaming group Ubisoft has been a frustrating holding with sector wide challenges compounded by company specific setbacks. The shares suffered a sharp drawdown in the latter part of the year mainly due to reduced merger & acquisition appeal after existing Ubisoft shareholder Tencent decided to buy a stake in the holding company of Ubisoft's majority shareholders. This is not immediately beneficial to minority investors like ourselves, and the news came as a big disappointment to recent buyers of the stock who were optimistic that the rumours of a buy-out would result in a large gain for all shareholders. We continue to hold the stock noting the release of major games next year as a key milestone for the group and we are expecting a successful roll-out.

On the positive side, the top contributor to returns was Norwegian listed energy group Equinor. The Nordic company benefited from rising energy prices as well as greater demand from regions no longer able to source their energy from Russia. Specialty chemicals distributor Azelis is another beneficiary of rising inflation, and made a positive contribution in the year. Inflation enables it to pass through price increases on the chemicals it distributes, having bought at a lower price. We continue to generate investment ideas and re-appraise existing holdings to ensure the portfolio consists of our highest conviction long term ideas.

A new position in the portfolio is pharmaceutical group Novo Nordisk. It is a global leader in treating diabetes. Growth in the coming years will be driven in large part by its successful GLP-1 franchise (where it has introduced a once-weekly treatment that is seeing strong growth). The company has also received approval to use the same drug to address obesity which is both a cause of diabetes and a major risk factor in other conditions such as cardiovascular disease.

Another new position is reinsurer Swiss Re. Economic turmoil and rising interest rates have resulted in less capacity in alternative insurance investments, meaning the traditional reinsurers can gain market share and/or charge higher rates. We see Swiss Re as an attractive income story.

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

In conclusion, global equity markets suffered a poor 2022. Recession in Europe has appeared likely, but we must remember that markets move in advance of macroeconomic data. Inflation may have peaked, but the European Central Bank has signalled its intention to keep tightening monetary policy. There are also signs that consumer and business confidence may be reaching a trough. Gas prices have fallen amid warmer weather and energy saving measures, reducing the pressure on corporates and consumers. As some of 2022's pressures abate, it may be that markets are more willing to embrace risk.

**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.**

# 4.09

# Aviva Investors Global Equity Fund

# Aviva Investors Global Equity Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | -10.13 | 10.84 | 10.74 | – | 10.82 |
| **UK Corporate Acc** | – | – | – | – | 10.45 |
| **Insured Pension Acc** | – | – | – | – | 10.64 |
| **UK Corporate Inc** | -10.11 | 10.84 | 10.77 | 13.54 | – |
| **Insured Pension Inc** | -10.01 | 10.98 | 10.91 | 13.80 | – |
| **MSCI World NR GBP**[2] | -7.83 | 8.37 | 8.66 | 11.71 | – |

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

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

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

# Aviva Investors Global Equity Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Aviva Investors Global Equity Fund (continued)

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -10.1%* (net of fees). The Sub-fund's benchmark, the MSCI® World NDR Total Return GBP Index², returned -7.8% over the same period.

### Portfolio Review

Global equities saw steep declines in 2022. Despite relatively resilient earnings throughout much of the year, inflation, tightening monetary conditions and geopolitical tensions drove increased volatility across equity, bond and currency markets. Russia's invasion of Ukraine in late February caused a global shock, with equities declining and commodity prices soaring, given that Russia is a key producer of several important commodities. This contributed to a further surge in inflation as well as supply chain disruption. In effect this brought about an end to the loose monetary policy era across many developed markets as central banks moved to raise rates and halt asset purchase programmes synonymous with the previous decade. This dynamic kept shares prices under pressure through spring and summer of 2022 as investors moved to price in interest rate rises and an increased risk of recession. Shares did however make gains in November as improved sentiment drove a bear market rally but hawkish central bank rhetoric amidst a slowing growth backdrop ultimately led markets to further losses in December.

The portfolio underperformed the benchmark against this backdrop. Mega cap stocks Alphabet and Amazon – significant beneficiaries of Covid "lockdown life" – were notable underperformers as both companies' core businesses suffered from a deterioration in macroeconomic conditions. The hiking rates environment drove a valuation de-rating that also proved to be a significant headwind for some of the portfolio's longer duration growth stocks. Software company Adobe and audio streaming company Spotify struggled in this environment while a softening outlook for some areas of the semiconductor market negatively impacted positions in Taiwan Semiconductor Manufacturing Company, ASML and Advanced Micro Devices.

There was however strong positive performance in other areas of the portfolio. An overweight allocation to energy through positions in Shell, Equinor, ConocoPhillips and Coterra Energy was a significant contributor to relative returns as these companies posted supernormal profits owing largely to soaring energy prices. Traditional defensive stocks were also particularly resilient during the period as investors sought relative safety in a volatile environment. This was most notably represented in the portfolio by large cap pharmaceutical holding Eli Lilly as well as healthcare providers Elevance and UnitedHealth, which were all strong performers underpinned by robust earnings. Meanwhile, consumer staple stock Pepsico also achieved strong relative performance as the company was able to successfully pass higher costs through to consumers to drive strong operating performance.

Despite strong returns over recent months, global equity markets remain susceptible to shifting sentiment towards geopolitical tensions, inflation, economic growth and ultimately corporate earnings.

Valuations have already significantly adjusted to reflect a change in the market environment and we believe reflect realistic expectations for inflation, rates and risk premia. Consequently, the source of risk has now shifted from valuation to earnings in light of the softer growth and prospects for a recession, which appears increasingly likely.

Schroders' proprietary Economic Activity Indicator signals a sharp downturn in activity and our economists now expect global growth of 2.6% for this year, slowing to just 1.5% growth for 2023. Apart from the Covid-19 pandemic, this will be the weakest year for global growth since 2009. We now expect major economies (US, Eurozone and UK growth) to enter recession.

We are therefore entering a phase in which the impact of slowing growth, rising costs and weaker confidence will be much more apparent in company financial results. While company fundamentals have held up reasonably well to date, we expect a more challenging environment for revenues and earnings over coming quarters, particularly in more cyclically exposed areas of the market.

# Aviva Investors Global Equity Fund (continued)

Weaker growth is already evident in company guidance, and revisions have already turned negative. But earnings estimates need to come down further, in our opinion. Consensus S&P 500 earnings of $232 for CY2023 still look optimistic, and we expect these to be revised down steadily over the coming months, with the biggest downgrades likely in the first half of the year as companies give conservative guidance around full year results and the reality of the slowdown becomes apparent.

While this might not necessarily appear to be constructive for equities in the short term, stock markets always look ahead, typically discounting a trough in earnings six to nine months ahead of the actual trough. That suggests that the recent rally in global equity markets was not without foundation, although there may be some further short-term disappointment to come as profitability pressures become more apparent.

One important caveat remains the risk of ongoing geo-political risks, such as further escalation in Ukraine or a hardening of China's stance on Taiwan. These are potential "Black Swan" events that are binary in nature and impossible to predict with any certainty. On the other hand, resolutions of the many geo-political and macro factors mentioned in this letter will drive a more positive outcome.

Against this backdrop we will continue to emphasise individual company fundamentals in our stock picking and will remain vigilant for opportunities presented by any market dislocation. We continue to strongly believe that companies who operate with "corporate karma" by treating all their stakeholders fairly stand to benefit in the long run, and no more so is that true in the environment we find ourselves in today.

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

# 4.10

# Aviva Investors Global Equity Growth Fund

# Aviva Investors Global Equity Growth Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

| Performance: Annualised net return (%) | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | -9.63 | 10.80 | 10.03 | – | 10.16 |
| **UK Corporate Inc** | -9.59 | 10.83 | 10.13 | 12.81 | – |
| **MSCI World NR GBP** | -7.83 | 8.37 | 8.66 | 11.71 | – |

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

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

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

# Aviva Investors Global Equity Growth Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -9.6%* (net of fees). The Sub-fund's benchmark, the MSCI® World NDR Total Return GBP Index[2], returned -7.8% over the same period.

### Portfolio Review

Global equities saw steep declines in 2022. Despite relatively resilient earnings throughout much of the year, inflation, tightening monetary conditions and geopolitical tensions drove increased volatility across equity, bond and currency markets. Russia's invasion of Ukraine in late February caused a global shock, with equities declining and commodity prices soaring, given that Russia is a key producer of several important commodities. This contributed to a further surge in inflation as well as supply chain disruption. In effect this brought about an end to the loose monetary policy era across many developed markets as central banks moved to raise rates and halt asset purchase programmes synonymous with the previous decade. This dynamic kept shares prices under pressure through spring and summer of 2022 as investors moved to price in interest rate rises and an increased risk of recession. Shares did however make gains in November as improved sentiment drove a bear market rally but hawkish central bank rhetoric amidst a slowing growth backdrop ultimately led markets to further losses in December.

The portfolio underperformed the benchmark against this backdrop. Mega cap stocks Alphabet and Amazon – significant beneficiaries of Covid "lockdown life" – were notable underperformers as both companies' core businesses suffered from a deterioration in macroeconomic conditions. The hiking rates environment drove a valuation de-rating that also proved to be a significant headwind for some of the portfolio's longer duration growth stocks. Software company Adobe and audio streaming company Spotify struggled in this environment while a softening outlook for some areas of the semiconductor market negatively impacted positions in Taiwan Semiconductor Manufacturing Company, ASML and Advanced Micro Devices.

There was however strong positive performance in other areas of the portfolio. An overweight allocation to energy through positions in Shell, Equinor, ConocoPhillips and Coterra Energy was a significant contributor to relative returns as these companies posted supernormal profits owing largely to soaring energy prices. Traditional defensive stocks were also particularly resilient during the period as investors sought relative safety in a volatile environment. This was most notably represented in the portfolio by large cap pharmaceutical holding Eli Lilly as well as healthcare providers Elevance and UnitedHealth, which were all strong performers underpinned by robust earnings. Meanwhile, consumer staple stock Pepsico also achieved strong relative performance as the company was able to successfully pass higher costs through to consumers to drive strong operating performance.

Despite strong returns over recent months, global equity markets remain susceptible to shifting sentiment towards geopolitical tensions, inflation, economic growth and ultimately corporate earnings. Valuations have already significantly adjusted to reflect a change in the market environment and we believe reflect realistic expectations for inflation, rates and risk premia. Consequently, the source of risk has now shifted from valuation to earnings in light of the softer growth and prospects for a recession, which appears increasingly likely.

Schroders' proprietary Economic Activity Indicator signals a sharp downturn in activity and our economists now expect global growth of 2.6% for this year, slowing to just 1.5% growth for 2023. Apart from the Covid-19 pandemic, this will be the weakest year for global growth since 2009. We now expect major economies (US, Eurozone and UK growth) to enter recession.

We are therefore entering a phase in which the impact of slowing growth, rising costs and weaker confidence will be much more apparent in company financial results. While company fundamentals have held up reasonably well to date, we expect a more challenging environment for revenues and earnings over coming quarters, particularly in more cyclically exposed areas of the market.

# Aviva Investors Global Equity Growth Fund (continued)

Weaker growth is already evident in company guidance, and revisions have already turned negative. But earnings estimates need to come down further, in our opinion. Consensus S&P 500 earnings of $232 for CY2023 still look optimistic, and we expect these to be revised down steadily over the coming months, with the biggest downgrades likely in the first half of the year as companies give conservative guidance around full year results and the reality of the slowdown becomes apparent.

While this might not necessarily appear to be constructive for equities in the short term, stock markets always look ahead, typically discounting a trough in earnings six to nine months ahead of the actual trough. That suggests that the recent rally in global equity markets was not without foundation, although there may be some further short-term disappointment to come as profitability pressures become more apparent.

One important caveat remains the risk of ongoing geo-political risks, such as further escalation in Ukraine or a hardening of China's stance on Taiwan. These are potential "Black Swan" events that are binary in nature and impossible to predict with any certainty. On the other hand, resolutions of the many geo-political and macro factors mentioned in this letter will drive a more positive outcome.

Against this backdrop we will continue to emphasise individual company fundamentals in our stock picking and will remain vigilant for opportunities presented by any market dislocation. We continue to strongly believe that companies who operate with "corporate karma" by treating all their stakeholders fairly stand to benefit in the long run, and no more so is that true in the environment we find ourselves in today.

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

# 4.11

# Aviva Investors Index Linked Gilt Fund

# Aviva Investors Index Linked Gilt Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | Since Launch |
|---|---|---|---|---|
| **UK Institutional Acc** | -33.47 | -8.40 | -3.88 | -3.45 |
| **Insured Pension Acc** | -33.47 | -8.41 | – | -8.46 |
| **UK Corporate Acc** | -33.47 | -8.41 | – | -8.46 |
| **FTSE Actuaries UK Idx-Lnk Gilts All Stocks TR GBP**[1] | -33.60 | -8.42 | -4.01 | – |

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

The Sub-fund aims to grow your investment over the long term (5 years or more) by investing in bonds issued or guaranteed by governments.

The Sub-fund's overall performance after charges is considered to offer value to investors, taking into consideration performance relative to its investment objectives, policy and strategy, and other relevant information considered in the assessment.

The Board do however note that the value of investor's holdings have declined in the year to December 2022, which is mainly due to the volatile market conditions that we have explained in the introduction to this report on page 5. However, the Board retains confidence in the strategy adopted by the portfolio manager, which should benefit investors over the long term.

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

# Aviva Investors Index Linked Gilt Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months to 31 December 2022, the Sub-fund returned -33.5%* (net of fees). The Sub-fund's benchmark, the FTSE® UK Government All Stocks Index[1], returned -33.6% over the same period.

### Portfolio Review

The index-linked gilt market lost a third of its value in the 2022 calendar year as investors anticipated an aggressive tightening of monetary policy in response to surging inflation. The consumer prices index rose to 10.5% by the end of the period as a result of soaring energy prices. Already tight energy supply was exacerbated by the sanctions imposed on Russia in response to its February invasion of Ukraine, leading to oil prices rising to around $120 a barrel at one point.

At the start of the year, investors had expected a modest pace of interest rate hikes. However, the acceleration of inflation saw the Bank of England (BoE) tighten policy at each of its meetings over the year, leaving the base rate at 3.5%. This compared to just 0.1% during the pandemic.

Gilt yields moved steadily higher in the first half of the period, with the benchmark ten-year issue rising from 0.97% to 2.24%. The sharpest move was seen in long-dated issues as this sector of the market is more sensitive to changes in interest rate expectations.

As the second half of the year got underway, the market began to focus less on inflation and more on the rising prospect of the UK sliding into recession. Accordingly, investors began to anticipate the aggressive rate hiking cycle to ease as the policy-makers looked to steer the UK economy away from a damaging period of contraction. September saw huge volatility as the market was spooked by an aggressive tax-cutting budget set out by the new Liz Truss administration.

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

Gilts enjoyed the only positive quarterly return in the final three months of the year. With the BoE helping to support the market in response to the volatile political backdrop created by the short-lived Truss government, gilts (and especially longer-dated issues) performed exceptionally well until the final few weeks when yields once again began to resume their trend higher. The ten-year gilt yield ended the year at 3.33%.

At the start of the year, as a consequence of the reflationary dynamics in play, the portfolio entered into a number of short duration positions looking to capture as much of the move higher in yields as possible. These positions were held in the UK, the US, Germany and Italy. However, it was the US where this strategy was predominantly employed. These duration trades proved successful as globally yields moved higher and largely nowhere more so than the US. Additionally, cross-market positions being short US Treasuries versus UK gilts as well as German Bunds also proved beneficial. Elsewhere, small yield curve trades also helped the portfolio bring in additional alpha against the benchmark. Trades here were largely of a steepening nature ahead of the impending supply in the second quarter after the passing of the fiscal year 2021/22.

The same reflationary dynamics continued to play out into the second quarter, resulting in central banks raising rates further. However, this did not last throughout the entire period as the latter part of the Q2 saw a focus build on growth concerns and the impact inflation was having on this going forward. As such, the duration stance of the portfolio shifted from one looking for higher yields to one looking for lower yields. Again, these positions were held in similar geographies as the first quarter and once more these positions proved to work well. Elsewhere, as growth concerns became further elevated, yield curve positioning in both the US and the UK also aided the portfolio.

Although over the summer months the portfolio was not able to capitalise on the large moves seen in yields, it was the fund's yield curve and FX positions which proved to be the largest contributors to performance. Yet, it was the real-yield curve positioning which really served to detract from performance as the BoE stepped in to support the market post the turbulent political backdrop and the consequential capital market reaction. Between 28 September and 14 October 2022, in line with its financial stability objective, the BoE conducted temporary and targeted purchases of index-linked and long-dated conventional UK government bonds. This saw the portfolio struggle relatively against the index which continued into the final quarter of the year.

# Aviva Investors Index Linked Gilt Fund (continued)

On the whole, UK conventional gilts performed well in the fourth quarter. However, with the inflation backdrop remaining incredibly elevated, this was not replicated by index-linked gilts. With the BoE helping to support the market post the volatile political backdrop created by the Truss/Kwarteng government, gilts fared somewhat better until the final few weeks when yields once again began to resume their trend higher and this again was felt far more in the world of inflation-linked assets. The relative performance of the portfolio suffered somewhat in this turbulent environment.

## Outlook

Looking ahead, we remain mindful of the elevated volatility levels and resultant lack of liquidity in the gilt market. As this is highly likely to persist for the time being, we will utilise risk accordingly.

It will no doubt be a year when the portfolio will face being positioned for both higher and lower yields at various points. However, with the elevated inflationary backdrop still in play, it remains difficult to see markedly lower yields without a significant U-turn from central banks across developed markets.

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

# 4.12

# Aviva Investors Japan Equity Core Fund

# Aviva Investors Japan Equity Core Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

It should be noted that this Sub-fund launched on 2 November 2022, so this assessment has been completed with limited reference data. The conclusions are, therefore, in a large part dependent upon the product feasibility assessment that was completed prior to launch which evidenced that the Sub-fund's long term objective and fees were appropriate for a fund with this strategy.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

# Aviva Investors Japan Equity Core Fund (continued)

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

**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.**

# 4.13

# Aviva Investors Japan Equity Fund

# Aviva Investors Japan Equity Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

| Performance: Annualised net return (%) | | | | | |
|---|---|---|---|---|---|
| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
| **UK Institutional Acc** | -3.45 | 2.12 | 2.50 | – | 3.19 |
| **UK FoF Acc Units** | -3.53 | – | – | – | -0.93 |
| **UK Corporate Acc** | – | – | – | – | 13.41 |
| **Insured Pension Acc** | – | – | – | – | 13.61 |
| **UK Corporate Inc** | -3.48 | 2.11 | 2.58 | 7.94 | – |
| **Insured Pension Inc** | -3.32 | 2.40 | 2.79 | 8.02 | – |
| **Topix TR** | -4.14 | 2.32 | 2.39 | 6.99 | – |

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

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

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

# Aviva Investors Japan Equity Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Aviva Investors Japan Equity Fund (continued)

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -3.5%* (net of fees). The Sub-fund's benchmark, the TOPIX® TR GBP Index, returned -4.1% over the same period.

### Portfolio Review

Throughout 2022 quarterly results for Japanese companies have tended to run ahead of expectations. The latest reporting period in November proved to be another strong set of results, particularly for larger companies benefiting from yen weakness.

One of the most significant market events occurred in-December with the decision by the Bank of Japan to widen the band within which it has been maintaining 10-year bond yields. Although such a change had always been recognised by investors as a logical first step towards policy normalisation, the timing of the decision was a complete surprise.

Prior to this move, the widening interest rate differential between the US and Japan had been a significant factor in the consistent weakening of the yen for much of 2022. Despite the intervention by the Ministry of Finance in late September, the yen's weaker trend continued in the first half of October, reaching a 32-year low against the US dollar. Although the change in yield-control policy is not a de-facto interest rate rise, it was still sufficient to drive a sharp strengthening of the yen in December as investors moved to discount a more fundamental shift in policy from the Bank of Japan in 2023.

The government was able to assemble an additional substantial fiscal package in the fourth quarter, through which it aims to bolster the nascent domestic recovery in 2023. There was also a positive development with the lifting of international travel restrictions from 11 October.

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

Nevertheless, compared to expectations at the beginning of the year, it is clear that Japan's domestic economic recovery in 2022 has been slower than expected. There are some external factors behind this, including the Shanghai lockdowns, but consumption and mobility data also clearly weakened around each successive wave of Covid infections in Japan.

The portfolio outperformed the benchmark in the year. Although the announcement of a policy change from the Bank of Japan only happened in mid-December, the very strong reaction in the share price of Mitsubishi UFJ Financial Group, a major bank, was sufficient to produce the strongest annual contribution among stocks held in the portfolio. Many other financial stocks had begun outperforming a few months earlier, but Tokio Marine Holdings, one of Japan's largest insurers, also received an additional strong boost in December, for the same reason. The largest offsetting negative contributions came from MinebeaMitsumi, and there was a negative impact from not holding Sumitomo Mitsui Financial Group, another of Japan's major banks.

There has been no change in strategy, and the portfolio remains focused on companies with sustainable mid- to long-term earnings, backed by company-specific growth drivers. Among new positions added recently are Suzuki Motor, an automobile manufacturer, and Exeo Group, one of the largest telecom engineering companies in Japan.

Despite the recent move by the central bank, Japan enters 2023 as a clear outlier among developed markets, in terms of the outlook for economic growth, monetary policy and inflation. With the domestic economy finally reopening, we see many companies well-positioned to continue to grow profits in the coming year.

Our positive view on Japan for 2023 is also supported by the ongoing improvements in corporate governance and the scope for this to generate real value for investors. This is partly a qualitative assessment through our discussions with company managements, but there are also measurable impacts such as improving Return on Equity and a record level of share buybacks announced in the current fiscal year.

**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.**

# 4.14

# Aviva Investors Money Market VNAV Fund

# Aviva Investors Money Market VNAV Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years |
|---|---|---|---|---|
| **UK Corporate Inc** | 1.36 | 0.55 | 0.60 | 0.83 |
| **Insured Pension Inc** | 1.33 | 0.55 | 0.60 | 0.87 |
| **LIBID GBP 7 Day / SONIA^** | 1.41 | 0.55 | 0.58 | 0.51 |

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

^On 1st December 2021 the Fund benchmark was changed from LIBOR to SONIA (Sterling Overnight Index Average)

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

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

# Aviva Investors Money Market VNAV Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Fund Managers Report

## Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned of 1.36%* (net of fees). The Sub-funds benchmark, SONIA, returned of 1.41% over the same period.

## Portfolio Review

Financial markets were volatile at the start of 2022. Headlines were of course dominated by the horrific war in Ukraine and the terrible humanitarian crisis continuing to unfold. There seemed to be a short-lived rotation toward safe haven assets as the war began, with meaningful declines in bond yields at the very beginning of March. But investors focus overall was trained on continued elevated and still rising inflationary pressure. The UK saw continued elevated inflation and monetary tightening resulting in significantly higher yields and further moderate curve flattening.

The UK faced headwinds from a severe cost of living crisis as spiralling costs, driven predominantly by energy and food prices, acted as a tax on the consumer. Over the year, The Bank of England (BoE) actioned a hawkish stance and rose interest rates from 0.25% at the end of 2021 to 3.5% by December 2022. Politics was the real challenge to the UK gilt market as the market questioned the credibility of the government's fiscal policy. There was a calmer political environment into year-end following a return to fiscal prudence.

Portfolio construction remained consistent with the primary objectives of the Fund to preserve capital and provide liquidity. We maintained our diversified portfolio by investing in high-quality commercial paper, certificates of deposit and time deposits. As with 2021, we held preference for certificates of deposit, funding any increase from cash reserves. We added exposure to floating rate certificate of deposits as they will provide protection if rates rise more than expected. They also offer an attractive spread over SONIA. We continue to hold a small amount of UK Treasury bills which remained consistent at 4.5% of the fund throughout the year.

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

The UK saw significant volatility, particularly towards the end of the period following the government's mini-budget announcement, which caused sterling to fall sharply and yields to rise dramatically as investors took fright at the scale unfunded tax cuts. In terms of portfolio activity, we increased our allocation to short-dated paper in order to build up more liquidity, given the volatility we saw at the end of September. The portfolio's WAM was reduced as result. After this period of volatility, we steadily increased the WAM to end the year at 45 days.

It is predicted that cash rates will continue to benefit from a normalisation of interest rates. The Bank of England's (BoE) guidance points to the need for further rate rises in order to achieve a sustainable return to its inflation target. Nevertheless, there are signs of softening inflation and though the labour market remains tight, recent data releases indicate some easing in conditions. However, we are monitoring developments here closely as supply-side challenges in the form of labour shortages still threaten the risk of stickier wage growth, supporting inflation. Meanwhile, we expect that the weakness in the UK housing market will become an increasingly significant factor in terms of policy setting. There is no doubt that the BoE's Monetary Policy Committee want to avoid a scenario in which a considerable correction in the housing market quickly contains prices, instead preferring a more drawn-out battle against inflation.

The UK economy continues to face headwinds from a number of factors. Although easing energy costs have supported recent sentiment, a rolling off of some of the UK's emergency measures to insulate businesses from the worst of the energy crisis could lead to a more difficult time for the economy.

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

**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.**

# 4.15

# Aviva Investors North American Equity Core Fund

# Aviva Investors North American Equity Core Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

It should be noted that this Sub-fund launched on 2 November 2022, so this assessment has been completed with limited reference data. The conclusions are, therefore, in a large part dependent upon the product feasibility assessment that was completed prior to launch which evidenced that the Sub-fund's long term objective and fees were appropriate for a fund with this strategy.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

# Aviva Investors North American Equity Core Fund (continued)

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

**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.**

# 4.16

# Aviva Investors North American Equity Fund

# Aviva Investors North American Equity Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | -9.61 | 12.72 | 12.20 | – | 12.30 |
| **UK Corporate Acc** | – | – | – | – | 12.37 |
| **Insured Pension Acc** | – | – | – | – | 12.13 |
| **UK Corporate Inc** | -9.44 | 12.78 | 12.28 | 15.01 | – |
| **Insured Pension Inc** | -9.44 | 12.90 | 12.45 | 15.10 | – |
| **FTSE North America TR GBP**[1] | -8.79 | 10.81 | 11.64 | 14.54 | – |

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

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

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

# Aviva Investors North American Equity Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Fund Managers Report

## Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -9.6%* (net of fees).
The Sub-fund's benchmark, the FTSE® All World North America[1] returned -8.8% over the same period.

## Portfolio Review

US equities saw steep declines in 2022. Despite relatively resilient earnings throughout much of the year, inflation, tightening monetary conditions and geopolitical tensions drove increased volatility across equity, bond and currency markets. Russia's invasion of Ukraine in late February caused a global shock, with equities declining and commodity prices soaring, given that Russia is a key producer of several important commodities. This contributed to a further surge in inflation as well as supply chain disruption. In effect this brought about an end to the loose monetary policy era across many developed markets as central banks moved to raise rates and halt asset purchase programmes synonymous with the previous decade. This dynamic kept shares prices under pressure through spring and summer of 2022 as investors moved to price in interest rate rises and an increased risk of recession. Shares did however make gains in November as improved sentiment drove a bear market rally but hawkish central bank rhetoric amidst a slowing growth backdrop ultimately led markets to further losses in December.

The portfolio outperformed the benchmark against this backdrop. An average overweight allocation to energy through positions in Schlumberger, ConocoPhillips and Coterra Energy was a significant contributor to relative returns as these companies posted supernormal profits owing largely to soaring energy prices. Traditional defensive stocks were also particularly resilient during the period as investors sought relative safety in a volatile environment. This was most notably represented in the portfolio by large cap pharmaceutical holdings Eli Lilly and Johnson&Johnson as well as healthcare provider UnitedHealth, which were all strong performers underpinned by robust earnings. Similarly, consumer staple stock Pepsico also achieved strong relative performance as the company was able to successfully pass higher costs through to consumers to drive strong operating performance.

Performing less well was mega cap stock Alphabet – significant beneficiary of Covid "lockdown life" – was a notable underperformer as the company's core search advertising business suffered from a deterioration in macroeconomic conditions. The hiking rates environment drove a valuation de-rating that also proved to be a significant headwind for some of the portfolio's longer duration growth stocks. Software company Adobe and automatic identification and data capture manufacturing company Zebra Technologies experienced significant multiple contraction in this environment while this dynamic also put downward pressure on healthcare holding Edwards Lifesciences, which was compounded by disappointing earnings in the period.

Despite strong returns over recent months, global equity markets remain susceptible to shifting sentiment towards geopolitical tensions, inflation, economic growth and ultimately corporate earnings. Valuations have already significantly adjusted to reflect a change in the market environment and we believe reflect realistic expectations for inflation, rates and risk premia. Consequently, the source of risk has now shifted from valuation to earnings in light of the softer growth and prospects for a recession, which appears increasingly likely.

Schroders' proprietary Economic Activity Indicator signals a sharp downturn in activity and our economists now expect global growth of 2.6% for this year, slowing to just 1.5% growth for 2023. Apart from the Covid-19 pandemic, this will be the weakest year for global growth since 2009. We now expect major economies (US, Eurozone and UK growth) to enter recession.

We are therefore entering a phase in which the impact of slowing growth, rising costs and weaker confidence will be much more apparent in company financial results. While company fundamentals have held up reasonably well to date, we expect a more challenging environment for revenues and earnings over coming quarters, particularly in more cyclically exposed areas of the market.

Weaker growth is already evident in company guidance, and revisions have already turned negative. But earnings estimates need to come down further, in our opinion. Consensus S&P 500 earnings of $232 for CY2023 still look optimistic, and we expect these to be revised down steadily over the coming months, with the biggest downgrades likely in the first half of the year as companies give conservative guidance around full year results and the reality of the slowdown becomes apparent.

While this might not necessarily appear to be constructive for equities in the short term, stock markets always look ahead, typically discounting a trough in earnings six to nine months ahead of the actual trough. That suggests that the recent rally in global equity markets was not without foundation, although there may be some further short-term disappointment to come as profitability pressures become more apparent.

One important caveat remains the risk of ongoing geo-political risks, such as further escalation in Ukraine or a hardening of China's stance on Taiwan. These are potential "Black Swan" events that are binary in nature and impossible to predict with any certainty. On the other hand, resolutions of the many geo-political and macro factors mentioned in this letter will drive a more positive outcome.

Against this backdrop we will continue to emphasise individual company fundamentals in our stock picking and will remain vigilant for opportunities presented by any market dislocation. We continue to strongly believe that companies who operate with "corporate karma" by treating all their stakeholders fairly stand to benefit in the long run, and no more so is that true in the environment we find ourselves in today.

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

# 4.17

# Aviva Investors Pacific Equity ex Japan Core Fund

# Aviva Investors Pacific Equity ex Japan Core Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

It should be noted that this Sub-fund launched on 2 November 2022, so this assessment has been completed with limited reference data. The conclusions are, therefore, in a large part dependent upon the product feasibility assessment that was completed prior to launch which evidenced that the Sub-fund's long term objective and fees were appropriate for a fund with this strategy.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

# Aviva Investors Pacific Equity ex Japan Core Fund (continued)

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

**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.**

# 4.18

# Aviva Investors Pre-Annuity Fixed Interest Fund

# Aviva Investors Pre-Annuity Fixed Interest Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

| Performance: Annualised net return (%) | | | | |
|---|---|---|---|---|
| | 1 Year | 3 Years | 5 Years | Since Launch |
| **UK Institutional Acc** | -27.76 | -8.64 | -3.51 | -3.00 |
| **Insured Pension Acc** | -27.75 | -8.63 | – | – |
| **Insured Pension Inc** | -27.80 | -9.10 | -3.78 | -2.25 |
| **Benchmark^** | -27.86 | -9.00 | -3.73 | – |

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

^35% FTSE UK Gilts 15-25y TR; 15% FTSE UK Gilts 25y+ TR; 10% iBoxx Sterling Non-Gilts 1-5y TR; 35% iBoxx Sterling Non-Gilts 5-15y TR; 5% iBoxx Sterling Non-Gilts 15y+ TR

The Sub-fund aims to provide an element of protection from changes in the cost of buying a pension annuity by investing in bonds issued by companies and governments.

Bonds are generally considered to be at the lower end of the risk spectrum for investors, and do not tend to fluctuate in value as much as equity markets, however in 2022 this was not the case. The high inflation and rise in interest rates throughout the year prompted a selloff in bonds that caused bond yields to rise and valuations to fall.

The Sub-fund was impacted by this unprecedented market environment and experienced a decline in value of 27.8% over the year, and that impacted the total return of the Sub-fund over all periods under review. However the Sub-fund has delivered benchmark relative returns marginally in excess of the index over the same period.

# Aviva Investors Pre-Annuity Fixed Interest Fund (continued)

The Board notes this is a worrying environment for investors, in particular for those in the period leading up to retirement who invest (albeit indirectly) into this Sub-fund. However, the Sub-fund's performance is intended to correlate with changes in annuity rates, which rise with interest rates, and therefore protect the purchasing power of an investors retirement fund. In this case annuity rates have increased by as much as 42% over the last 12 months, and therefore although the Sub-fund's performance is disappointing, those investors intending to purchase an annuity product should not be materially worse off as a result of the Sub-funds performance.

Therefore, whilst the Board acknowledge that the market environment has a significant impact on the Sub-fund's absolute performance in 2022, the Sub-fund continues to offer the expected investment outcome, and therefore we do not propose to make any changes to the of the Sub-fund.

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Fund Managers Report

## Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -27.8%* (net of fees). The Sub-fund's composite benchmark returned -27.9% over the same period.

## Review

Sterling corporate bonds suffered one of their worst-ever years of performance in 2022. A loss of almost a quarter in the value of underlying gilts exerted a major influence as investors anticipated an aggressive tightening of monetary policy in response to surging inflation. The consumer prices index rose to 10.5% by December, largely as a result of soaring energy prices.

At the start of the year, investors had expected a modest pace of interest rate hikes. However, the acceleration of inflation saw the Bank of England tighten policy at each of its meetings during the year, leaving the base rate at 3.5%. This compared to just 0.1% during the pandemic.

As the year progressed the market began to focus less on inflation and more on the rising prospect of the UK sliding into recession. The ensuing worries about deteriorating company fundamentals, plus the huge market turbulence caused by September's radical budget by the Truss administration, triggered particularly sharp losses for corporate bonds.

Spreads widened by around 61 basis points over the calendar year. In sector terms, the greatest weakness was seen in lower-quality bank, leisure and real estate debt. At the credit quality level, A-rated bonds suffered the most, while longer-dated bonds were far weaker than short-dated bonds as investors continued to anticipate interest rate hikes.

Given the objective of the fund to preserve capital prior to investment in an annuity, we adopt a conservative stance to managing the portfolio, taking small positions relative to the benchmark.

Rather than taking risk by expressing a view on interest rate moves, we sought to add value through credit selection, especially given a highly volatile year in rates - particularly gilts.

## Outlook

Whilst recent spread tightening has made valuations less compelling, we still think there is value in investment-grade credit in the medium term. Overall, our outlook is neutral to cautious. We expect spreads and yields to offer better entry levels in the months ahead as investors become accustomed to the high inflation, high interest rate environment.

Fundamentally, we prefer financials over corporates. Against an uncertain macroeconomic backdrop, global banks are well positioned for upcoming pressures, which we feel is not reflected in relative spreads. Revenues are supported by higher rates and volatility. Currently, this allows banks to control earnings allocation – retention to support regulatory capital requirements, provision build against future expected loan losses and stakeholder distributions. This elicits constructive stance towards credit.

Risks are twofold. First, pre-rate-rise stress testing of new lending may no longer apply in a higher rate regime. Second, unemployment, the historic driver of losses in recessions, may be more problematic in this downturn coming from a lower baseline.

Looking at technicals, we expect more positive flows into the asset class in 2023 as spreads and all-in yields remain relatively attractive and risk-off sentiment should see a flight to quality. An offsetting technical factor is quantitative tightening from major central banks, which has only really started to pick up pace into the fourth quarter of 2022.

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

# 4.19

# Aviva Investors Sterling Corporate Bond Fund

# Aviva Investors Sterling Corporate Bond Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | -18.90 | -5.23 | -1.52 | – | -1.07 |
| **UK Corporate Acc** | -18.93 | -5.21 | – | – | -4.69 |
| **Insured Pension Acc** | -18.93 | -5.21 | – | – | -4.69 |
| **UK Corporate Inc** | -18.91 | -5.20 | -1.51 | 0.64 | – |
| **Markit iBoxx Sterling Collateralized & Corp TR GBP**[4] | -19.29 | -5.28 | -1.63 | 1.10 | – |

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

The Sub-fund aims to grow your investment over the long term (5 years or more) through a combination of income and capital returns by investing in bonds issued by companies.

The Sub-fund's overall performance after charges is considered to offer value to investors, taking into consideration performance relative to its investment objectives, policy and strategy, and other relevant information considered in the assessment. The Board do however note that the value of investor's holdings have declined in the year to December 2022, which is mainly due to the volatile market conditions that we have explained in the introduction to this report on page 5. However, the Board retains confidence in the strategy adopted by the portfolio manager, which should benefit investors over the long term.

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

# Aviva Investors Sterling Corporate Bond Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -18.9%* (net of fees). The Sub-fund's benchmark, the Markit iBoxx® Sterling Collateralized and Corporates Index[4] Total Return returned -19.3% over the same period.

# Aviva Investors Sterling Corporate Bond Fund (continued)

## Review

Sterling corporate bonds suffered one of their worst-ever years of performance in 2022. A loss of almost a quarter in the value of underlying gilts exerted a major influence as investors anticipated an aggressive tightening of monetary policy in response to surging inflation. The consumer prices index rose to 10.5% by December, largely as a result of soaring energy prices.

At the start of the year, investors had expected a modest pace of interest rate hikes. However, the acceleration of inflation saw the Bank of England tighten policy at each of its meetings during the year, leaving the base rate at 3.5%. This compared to just 0.1% during the pandemic.

As the year progressed the market began to focus less on inflation and more on the rising prospect of the UK sliding into recession. The ensuing worries about deteriorating company fundamentals, plus the huge market turbulence caused by September's radical budget by the Truss administration, triggered particularly sharp losses for corporate bonds.

Spreads widened by around 61 basis points over the calendar year. In sector terms, the greatest weakness was seen in lower-quality bank, leisure and real estate debt. At the credit quality level, A-rated bonds suffered the most, while longer-dated bonds were far weaker than short-dated bonds as investors continued to anticipate interest rate hikes.

At the start of the period, the fund took broadly cautious positioning in terms of credit risk given rich market valuations and ongoing uncertainties about the path of the pandemic and monetary policy. This was positive for performance. However, there were tactical adjustments of risk, such as in the wake of the sharp spread widening following the start of the Ukraine war. In the event, this move proved a little premature given renewed market weakness. In terms of duration – or sensitivity to changes in interest rates - the fund benefited from holding a cautious short position for much of the period. This was in anticipation of longer-duration bonds being punished by ongoing hikes in UK interest rates.

As the likelihood of recession grew, the fund redoubled its focus on more defensive sectors such as telecommunications and banks, as well as its short duration position. There was also a shift up the credit quality scale, with the fund moving overweight AAAs and AAs versus As and BBBs.

## Outlook

Whilst recent spread tightening has made valuations less compelling, we still think there is value in investment-grade credit in the medium term. Overall, our outlook is neutral to cautious. We expect spreads and yields to offer better entry levels in the months ahead as investors become accustomed to the high inflation, high interest rate environment.

Fundamentally, we prefer financials over corporates. Against an uncertain macroeconomic backdrop, global banks are well positioned for upcoming pressures, which we feel is not reflected in relative spreads. Revenues are supported by higher rates and volatility. Currently, this allows banks to control earnings allocation – retention to support regulatory capital requirements, provision build against future expected loan losses and stakeholder distributions. This elicits constructive stance towards credit.

Risks are twofold. First, pre-rate-rise stress testing of new lending may no longer apply in a higher rate regime. Second, unemployment, the historic driver of losses in recessions, may be more problematic in this downturn coming from a lower baseline.

Looking at technicals, we expect more positive flows into the asset class in 2023 as spreads and all-in yields remain relatively attractive and risk-off sentiment should see a flight to quality. An offsetting technical factor is quantitative tightening from major central banks, which has only really started to pick up pace into the fourth quarter of 2022.

We are running a focused portfolio (less than 100 issuers) of our top ideas in sterling investment-grade credit. Some of which are BBs that we expect to be upgraded or offer an appropriate pick-up to the yield of the fund.

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

# 4.20

# Aviva Investors Sterling Gilt Fund

# Aviva Investors Sterling Gilt Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | -23.44 | -7.59 | -3.11 | – | -2.54 |
| **ACS Acc (Class 1)** | -23.41 | -7.58 | – | – | -3.67 |
| **ACS Acc (Class 2)** | -23.42 | -7.58 | – | – | -3.68 |
| **UK Corporate Acc** | -23.42 | -7.57 | – | – | -7.41 |
| **Insured Pension Acc** | -23.42 | -7.57 | – | – | -7.41 |
| **UK Corporate Inc** | -23.45 | -7.57 | -3.10 | -0.65 | – |
| **FTSE Actuaries UK Conven Gilts All Stocks TR GBP**[1] | -23.83 | -7.86 | -3.40 | -0.84 | – |

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

The Sub-fund aims to grow your investment over the long term (5 years or more) through a combination of income and capital returns by investing in bonds issued or guaranteed by governments.

The Sub-fund's overall performance after charges is considered to offer value to investors, taking into consideration performance relative to its investment objectives, policy and strategy, and other relevant information considered in the assessment.

# Aviva Investors Sterling Gilt Fund (continued)

The Board do however note that the value of investor's holdings have declined in the year to December 2022, which is mainly due to the volatile market conditions that we have explained in the introduction to this report on page 5. However, the Board retains confidence in the strategy adopted by the portfolio manager, which should benefit investors over the long term.

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Aviva Investors Sterling Gilt Fund (continued)

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -23.4%* (net of fees). The Sub-fund's benchmark, the FTSE® UK All-Stocks Total Return Index[1], returned -23.8% over the same period.

### Review

Gilts suffered significant losses in the 2022 calendar year as investors anticipated an aggressive tightening of monetary policy in response to surging inflation. The consumer prices index rose to 10.5% by the end of the period as a result of soaring energy prices. Already tight energy supply was exacerbated by the sanctions imposed on Russia in response to its February invasion of Ukraine, leading to oil prices rising to around $120 a barrel at one point.

At the start of the year, investors had expected a modest pace of interest rate hikes. However, the acceleration of inflation saw the Bank of England (BoE) tighten policy at each of its meetings over the year, leaving the base rate at 3.5%. This compared to just 0.1% during the pandemic.

Gilt yields moved steadily higher in the first half of the period, with the benchmark ten-year issue rising from 0.97% to 2.24%. The sharpest move was seen in long-dated issues, however, as this sector of the market is more sensitive to changes in interest rate expectations.

As the second half of the year got underway, the market began to focus less on inflation and more on the rising prospect of the UK sliding into recession. Accordingly, investors began to anticipate the aggressive rate hiking cycle to ease as the policy-makers looked to steer the UK economy away from a damaging period of contraction. September saw huge volatility as the market was spooked by an aggressive tax-cutting budget set out by the new Liz Truss administration.

Gilts enjoyed the only positive quarterly return in the final three months of the year. With the BoE helping to support the market in  response to the volatile political backdrop created by the short-lived Truss government, gilts (and especially longer-dated issues) performed exceptionally well until the final few weeks when yields once again began to resume their trend higher. The ten-year gilt yield ended the year at 3.33%

At the start of the year, as a consequence of the reflationary dynamics in play, the portfolio entered into a number of short duration positions looking to capture as much of the move higher in yields as possible. These positions were held in the UK, the US, Germany and also in Italy. However, it was the US where this strategy was predominantly employed. These duration trades proved successful as globally yields moved higher and largely nowhere more so than the US. Additionally, cross-market positions being short US Treasuries versus gilts as well as German Bunds also proved beneficial. Elsewhere, small yield curve trades also helped the portfolio bring in additional alpha against the benchmark.

The same reflationary dynamics experienced through the first three months of the year continued to play out into the second quarter resulting in central banks continuing to raise rates. However, this did not last throughout the entire period as the latter part of Q2 saw a focus build on growth concerns and the impact inflation was having on this going forward. As such, the duration stance of the portfolio shifted from one looking for higher yields to one looking for lower yields. Again, these positions were held in similar geographies as the first quarter and once more these positions proved to work well. Elsewhere, as growth concerns became further elevated, yield curve positioning in both the US and the UK also aided the portfolio. From a volatility standpoint, this was ever-increasing as we moved through the year and in the second quarter was beginning to impact liquidity levels.

# Aviva Investors Sterling Gilt Fund (continued)

Over the course of the summer months, core fixed income markets are typically supported and this was duly seen early on through July. However, this was immediately reversed in August from a yield low of c. 1.80% in 10-year gilts through to the end of the third quarter where a yield high of c. 4.50% was seen. Although over the summer months the portfolio was not able to capitalise on the large moves seen in yields, it was the fund's yield curve and FX positions which proved to be the largest contributors to performance.

Going into the final part of the year, volatility was even more heightened, resulting in sizeable yield moves and a further loss of liquidity. As such, we aimed to reduce the risk applied to trades initiated. The relative performance of the portfolio was largely in line with that of the index which hides the volatility experienced. Short duration positions were offset by yield curve positions with the end result seeing the fund navigate one of the most tumultuous quarters the gilt market has ever experienced.

## Outlook

Looking ahead, we remain mindful of the elevated volatility levels and resultant lack of liquidity in the gilt market. As this is highly likely to persist for the time being, we will utilise risk accordingly.

It will no doubt be a year when the portfolio will face being positioned for both higher and lower yields at various points. However, with the elevated inflationary backdrop still in play, it remains difficult to see markedly lower yields without a significant U-turn from central banks across developed markets.

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

# 4.21

# Aviva Investors Stewardship Fixed Interest Fund

# Aviva Investors Stewardship Fixed Interest Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | -17.12 | -4.53 | -1.15 | – | -0.77 |
| **Insured Pension Acc** | -17.16 | -4.55 | – | – | -4.09 |
| **UK Feeder Acc Units** | -17.17 | – | – | – | -9.85 |
| **UK Corporate Inc** | -17.14 | -4.54 | -1.14 | 1.66 | – |
| **Markit iBoxx Sterling Non Gilts Overall TR**[4] | -17.73 | -4.92 | -1.55 | 0.94 | – |

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

The Sub-fund aims to grow your investment over the long term (5 years or more) by investing in bonds issued by global companies.

The Sub-fund's overall performance after charges is considered to offer value to investors, taking into consideration performance relative to its investment objectives, policy and strategy, and other relevant information considered in the assessment.

The Board do however note that the value of investor's holdings have declined in the year to December 2022, which is mainly due to the volatile market conditions that we have explained in the introduction to this report on page 5. However, the Board retains confidence in the strategy adopted by the portfolio manager, which should benefit investors over the long term.

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

# Aviva Investors Stewardship Fixed Interest Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -17.2* (net of fees). The Sub-fund's benchmark, the Markit iBoxx® GBP Non-Gilt Total Return Index[4], returned -17.7% over the same period.

### Review

Sterling corporate bonds suffered one of their worst-ever years of performance in 2022. A loss of almost a quarter in the value of underlying gilts exerted a major influence as investors anticipated an aggressive tightening of monetary policy in response to surging inflation. The consumer prices index rose to 10.5% by December, largely as a result of soaring energy prices.

At the start of the year, investors had expected a modest pace of interest rate hikes. However, the acceleration of inflation saw the Bank of England tighten policy at each of its meetings during the year, leaving the base rate at 3.5%. This compared to just 0.1% during the pandemic.

As the year progressed the market began to focus less on inflation and more on the rising prospect of the UK sliding into recession. The ensuing worries about deteriorating company fundamentals, plus the huge market turbulence caused by September's radical budget by the Truss administration, triggered particularly sharp losses for corporate bonds.

Spreads widened by around 61 basis points over the calendar year. In sector terms, the greatest weakness was seen in lower-quality bank, leisure and real estate debt. At the credit quality level, A-rated bonds suffered the most, while longer-dated bonds were far weaker than short-dated bonds as investors continued to anticipate interest rate hikes.

At the start of the period, the fund took broadly cautious positioning in terms of credit risk given rich market valuations and ongoing uncertainties about the path of the pandemic and monetary policy. This was positive for performance. However, there were tactical adjustments of risk, such as in the wake of the sharp spread widening following the start of the Ukraine war. In the event, this move proved a little premature given renewed market weakness. In terms of duration – or sensitivity to changes in interest rates - the fund benefited from holding a cautious short position for much of the period. This was in anticipation of longer-duration bonds being punished by ongoing going hike in UK interest rates.

As the likelihood of recession grew, the fund redoubled its focus on more defensive sectors such as telecommunications and banks, as well as its short duration position. There was also a shift up the credit quality scale, with the fund moving overweight AAAs and AAs versus As and BBBs.

At the sector level, the low exposure to the energy sector was a drag on performance for the year as a whole.

### Outlook

Whilst recent spread tightening has made valuations less compelling, we still think there is value in investment-grade credit in the medium term. Overall, our outlook is neutral to cautious. We expect spreads and yields to offer better entry levels in the months ahead as investors become accustomed to the high inflation, high interest rate environment.

Fundamentally, we prefer financials over corporates. Against an uncertain macroeconomic backdrop, global banks are well positioned for upcoming pressures, which we feel is not reflected in relative spreads. Revenues are supported by higher rates and volatility. Currently, this allows banks to control earnings allocation – retention to support regulatory capital requirements, provision build against future expected loan losses and stakeholder distributions. This elicits constructive stance towards credit.

Risks are twofold. First, pre-rate-rise stress testing of new lending may no longer apply in a higher rate regime. Second, unemployment, the historic driver of losses in recessions, may be more problematic in this downturn coming from a lower baseline.

Looking at technicals, we expect more positive flows into the asset class in 2023 as spreads and all-in yields remain relatively attractive and risk-off sentiment should see a flight to quality. An offsetting technical factor is quantitative tightening from major central banks, which has only really started to pick up pace into the fourth quarter of 2022.

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

# 4.22

# Aviva Investors Stewardship International Equity Fund

# Aviva Investors Stewardship International Equity Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | Since Launch |
|---|---|---|---|---|
| **UK Institutional Acc** | -11.35 | 7.51 | 9.39 | 9.50 |
| **UK Corporate Acc** | -11.29 | 7.53 | – | 7.77 |
| **Insured Pension Acc** | -11.20 | 7.64 | – | 7.88 |
| **UK Feeder Acc Units** | -11.30 | – | – | 1.38 |
| **MSCI World NR GBP**[2] | -7.83 | 8.37 | 8.66 | – |

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

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

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

# Aviva Investors Stewardship International Equity Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -11.3%* (net of fees). The Sub-fund's benchmark, the MSCI® World NDR Total Return GBP Index², returned -7.8% over the same period.

### Portfolio Review

By the end of 2022, the macro-economic environment was radically different to the one that prevailed at the start of the year. Growth slowed much more than anticipated. Not only did inflation fail to ease as expected, but it increased further. Meanwhile, central banks embarked on the most rapid pace of policy tightening in 40 years.

The supply chain problems that emerged in 2021, following the initial economic recovery from COVID, extended into 2022 and broadened in unforeseen ways. First and foremost, the Russian invasion of Ukraine in February led to sanctions and removal of supply that greatly impacted global energy markets. But the supply challenges have appeared in other areas as well. Job vacancies soared to all-time highs in almost all regions, while labour force participation either fell or failed to rise enough. As a result, despite the growth slowdown, there was almost no easing in labour market slack.

At the same time, having risen markedly in the first half of the year, underlying inflationary pressures remained persistent through the second half of 2022. Core measures of inflation remained far above central bank targets, while headline rates reached double digits in most economies. That led developed market central banks (except for the Bank of Japan) to raise policy rates from the effective lower bound at the start of the year into restrictive territory. Increases of 50 or 75 basis points per meeting became commonplace as central banks scrambled to get on top of the inflation breakout.

That tightening in monetary policy led to a sharp tightening in overall financial conditions as risk assets repriced to reflect the unexpected and dramatic move up in real rates. In an almost unprecedented outcome, virtually all global asset classes from government bonds to corporate credit, equities and real assets saw declines in 2022. The pain was felt across both developed and emerging markets. The only major asset class to see positive performance over the year was commodities, but even there it was largely restricted to energy and agriculture. The dramatic shift in cross-asset correlations was also accompanied by a significant increase in asset market volatility, most notably in bond markets, but also in foreign exchange and equities.

The fund posted negative absolute returns and underperformed its benchmark. The lack of exposure to energy, which was the leading sector over the year by some margin, was the main headwind for performance. A further drag was the overweighting of Google owner Alphabet in what proved to be a poor year for the large US technology players. Taiwan Semiconductor, Adobe Systems and Equifax also weighed on performance.

The fund profited from not owning the struggling US technology companies Amazon, Tesla and Facebook (now renamed Meta). Of the stocks held, the strongest contributor was London Stock Exchange. The UK bourse staged a strong recovery after an extended period of underperformance as it finally showed progress in integrating is Refinitiv acquisition into its business.  Credit card firm Mastercard also added value. At the sector level, the most profitable position was the underweighting of consumer discretionary companies.

### Outlook

Consensus earnings expectations are in our view too high. We believe the reasons are twofold. First, analysts are anchoring expectations to current operating conditions and companies are still reporting robust results, even if many management teams are reluctant to give guidance for next year citing macro uncertainty. Second, since the mid-1980s earnings-per-share expectations have been on average 6% too optimistic, making our current scepticism the norm rather than the exception. On the contrary, market expectations, as implied by valuations, are in our view too low.

# Aviva Investors Stewardship International Equity Fund (continued)

While hawkish central banks are tightening financial conditions for consumers and corporates, in general both have shown more prudence in aggregate compared to previous cycles and should be better equipped to weather the storm.

Investors currently sitting on the side-lines (evidently a high percentage by historic standards) or waiting for more clarity on the trajectory of earnings, should consider both downside and upside risks. Continued hawkish central banks may yet prove to be too great a burden for markets to bear. However, we believe at current prices risks are skewed to the upside.

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

# 4.23

# Aviva Investors Stewardship UK Equity Fund

# Aviva Investors Stewardship UK Equity Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | -6.02 | 0.66 | 3.84 | – | 4.12 |
| **Insured Pension Acc** | -6.01 | 0.66 | – | – | 2.47 |
| **UK Feeder Acc Units** | -5.97 | – | – | – | 2.75 |
| **UK Corporate Inc** | -6.06 | 0.66 | 3.84 | 5.32 | – |
| **FTSE All-Share TR** | 0.34 | 2.30 | 2.92 | 6.21 | – |

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

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

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

# Aviva Investors Stewardship UK Equity Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -6.0%* (net of fees). The Sub-fund's benchmark, the FTSE® All-Share Custom Index[1], returned -7.9% over the same period.

### Portfolio Review

UK equities outperformed other major markets in 2022 to post a modest gain. Rapidly rising energy prices partly caused by the Russia-Ukraine war contributed to extreme inflation that reached a 41-year high of 11.1% in October. In response, the Bank of England (BoE) raised interest rates by 3.25 percentage points over the year to leave them at 3.5% by December. This contributed to a slowdown in the economy's growth rate, with GDP contracting by 0.3% in the third calendar quarter. It is widely expected to post further negative growth in the short run. Economic instability rose sharply in the third quarter following a poorly received mini-budget that was followed by tax rises and spending cuts in the chancellor's Autumn Statement.

Within the market, energy was by far the strongest sector, with the oil majors BP and Shell making a pivotal contribution to performance thanks to a rallying crude price. The basic materials sector also benefited from an inflationary tailwind. Real estate, telecommunications and technology were the big losers.

The fund generated a negative absolute return but outperformed its benchmark. Stock selection was the main contributor versus the index, with consumer-focused healthcare company Haleon performing particularly well after it was spun out by GSK. The posting of strong numbers also helped financial services giant Standard Chartered add value, while the fund's largest holding London Stock Exchange enjoyed much improved returns after finally successfully bedding in its Refinitiv acquisition. At the sector allocation level, the overweighting of healthcare and the underweighting of real estate were the leading positions.

The main detractor was asset manager Intermediate Capital, which was hit by the increase in volatility across the UK stock market. Countryside Properties and Tritax Big Box REIT suffered sector woes as the government sought to make house builders liable for the cost of insulating new homes.

### Outlook

A new year normally brings renewed hopes, and most investors must be glad to see the end of such a difficult year in 2022. Although it is tempting to predict that many of the significant headwinds facing the market – namely persistently high inflation, weakening economic growth and war in Ukraine – will ease off sometime during the year, it is doubtful these issues will disappear fully. Inflation may be peaking but is likely to remain elevated. Economic growth may begin to show signs of recovery later in the year, but before that, it seems likely we are headed for a recession. As for the war in Ukraine, it is impossible to predict the outcome.

The UK continues to face a tough environment at home, with the biggest strike action since the 1970s, a protracted cost-of-living crisis and weakening economic trends. We expect to see downward revisions to earnings expectations in the coming quarters, reflecting the shallow economic recession, to weigh on the UK market. Additionally, the trajectory of interest rates will undoubtedly be an important factor behind the market. The BoE is expected to continue to raise rates in the first half of the year and most likely keep them high during most of 2023 unless inflation significantly falls from its current lofty levels.

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

# 4.24

# Aviva Investors Stewardship UK Equity Income Fund



AVIVA INVESTORS

# Aviva Investors Stewardship UK Equity Income Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | -9.81 | -1.31 | 2.65 | – | 3.02 |
| **Insured Pension Acc** | -9.75 | -1.30 | – | – | 0.86 |
| **UK Feeder Acc Units** | -9.82 | – | – | – | 0.96 |
| **UK Corporate Inc** | -9.81 | -1.35 | 2.69 | 4.97 | – |
| **FTSE All-Share TR**[1] | 0.34 | 2.30 | 2.92 | 6.21 | – |

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

The Sub-fund aims to deliver an income return in excess of the income return of the FTSE® All Share Index[1], annualised, over 3-year rolling periods, whilst also aiming to grow your investment over the long term (5 years or more) by investing in shares of UK companies which meet the ethical investment criteria defined by our Stewardship Investment Policy.

The Sub-fund has achieved the income objective, delivering an average yield of 103% relative to the benchmark over the three years to December 2022. The Sub-fund has also delivered growth over 5 years, despite a challenging 12 months, however the Board note that in comparison to the FTSE® All Share Index[1] the Sub-fund has underperformed relative to the benchmark by 0.28% over 5 years.

# Aviva Investors Stewardship UK Equity Income Fund (continued)

Due to the Sub-funds ethical investment criteria, the Sub-fund is unable to invest in certain stocks, including alcohol, gambling, tobacco, coal and oil. In order to compare the Sub-fund to a more appropriate index that excludes the companies that are not aligned with the Stewardship values, a custom benchmark is also used to measure the performance of the Sub-fund. Against this custom benchmark, the Sub-fund's performance is more favourable, outperforming the benchmark by 0.22% over 5 years.

One of the key drivers of the performance differential between the two indices is the Energy sector, which has performed strongly over the last year, in particular the major oil & gas companies which have benefited from the increase in energy costs. In line with the Sub-fund's ethical exclusion policy, the portfolio managers have instead opted for companies that are in the process of transitioning to a lower carbon economy, with a longer term sustainable outlook. Furthermore, the economic environment that has caused the energy companies to post record profits is perceived to be short term as the world becomes less reliant on gas that is supplied by Russia.

Despite this the Sub-fund has met its core objectives, and therefore delivered value to investors who invest for ethical purposes.

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -9.8%* (net of fees). The Sub-fund's benchmark, the FTSE® All-Share Custom Index[1], returned -7.6% over the same period.

### Review

UK equities outperformed other major markets in 2022 to post a modest gain. Rapidly rising energy prices partly caused by the Russia-Ukraine war contributed to extreme inflation that reached a 41-year high of 11.1% in October. In response, the Bank of England (BoE) raised interest rates by 3.25 percentage points over the year to leave them at 3.5% by December. This contributed to a slowdown in the economy's growth rate, with GDP contracting by 0.3% in the third calendar quarter. It is widely expected to post further negative growth in the short run. Economic instability rose sharply in the third quarter following a poorly received mini-budget that was followed by tax rises and spending cuts in the chancellor's Autumn Statement.

Within the market, energy was by far the strongest sector, with the oil majors BP and Shell making a pivotal contribution to performance thanks to a rallying crude price. The basic materials sector also benefited from an inflationary tailwind. Real estate, telecommunications and technology were the big losers.

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

The fund generated a negative absolute return and underperformed its benchmark. Stock selection was disappointing for the year overall. The main detractor was the fund's largest holding, asset manager Intermediate Capital, which was hit by the increase in volatility across the UK stock market. Countryside Properties suffered sector woes as the government sought to make house builders liable for the cost of insulating new homes. This issue also drove weak returns from the holding in building materials supplier Marshalls. On the positive side, value was added by consumer healthcare product maker Haleon after it was spun out of GSK while power generator Greencoat UK Wind benefited from the sharp rise in energy prices.

Sector allocation had a neutral influence on returns. The drag of the overweighting of telecommunications was offset by the underweighting of consumer discretionary and the overweighting of healthcare.

### Outlook

A new year normally brings renewed hopes, and most investors must be glad to see the end of such a difficult year in 2022. Although it is tempting to predict that many of the significant headwinds facing the market – namely persistently high inflation, weakening economic growth and war in Ukraine – will ease off sometime during the year, it is doubtful these issues will disappear fully. Inflation may be peaking but is likely to remain elevated. Economic growth may begin to show signs of recovery later in the year, but before that, it seems likely we are headed for a recession. As for the war in Ukraine, it is impossible to predict the outcome.

The UK continues to face a tough environment at home, with the biggest strike action since the 1970s, a protracted cost-of-living crisis and weakening economic trends. We expect to see downward revisions to earnings expectations in the coming quarters, reflecting the shallow economic recession, to weigh on the UK market. Additionally, the trajectory of interest rates will undoubtedly be an important factor behind the market. The BoE is expected to continue to raise rates in the first half of the year and most likely keep them high during most of 2023 unless inflation significantly falls from its current lofty levels.

At the start of 2023, the fund's main overweights were telecommunications and financials. Basic materials and consumer staples were the biggest underweights.

**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.**

# 4.25

# Aviva Investors Strategic Global Equity Fund



AVIVA INVESTORS

# Aviva Investors Strategic Global Equity Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | -9.40 | 6.23 | 6.05 | – | 6.39 |
| **UK Corporate Acc** | -9.35 | – | – | – | 6.51 |
| **UK Corporate Inc** | -9.30 | 6.26 | 6.10 | 10.40 | – |
| **MSCI AC World NR GBP**[2] | -8.08 | 7.40 | 7.72 | 11.28 | – |

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

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

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

# Aviva Investors Strategic Global Equity Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Aviva Investors Strategic Global Equity Fund (continued)

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -9.4%* (net of fees). The Sub-fund's benchmark, the MSCI® All Country World NDR Total Return Unhedged GBP Index[2], returned -8.1% over the same period.

### Portfolio Review

Equities fell in 2022. The widespread shock caused by the Russian invasion of Ukraine and its grave humanitarian implications rattled financial markets for most of the year. Beyond the impact to markets, the war increased inflationary pressures by severely disrupting energy and commodity trade globally, especially in Europe.

The year started well for style factors, particularly Value and Profitability measures which extended their rally into the start of the year. The increased uncertainty and risk posed by the events in Ukraine sparked a de-risking in financial markets, with stocks selling off and commodity prices surging in response. Style factors which started the year in positive territory gave back gains amid the worsening environment before recovering in the second half of the year. Our Momentum exposure performed the worst as these measures broadly struggled, despite strong performance within the energy sector as energy prices rose. Elsewhere, we note that our diversified set of Governance factor signals performed well over the period, providing a consistent source of returns. We use this group of factor signals to help identify companies that are dedicated to generating returns for shareholders. These signals paid off over the year and ended as the largest contributor to excess returns.

The war sent immense shockwaves through financial, energy and commodity markets last year and called into question the validity of environmental, social and governance (ESG) considerations in investing. Our own measure of environmental and social impact, SustainEx, was a significant drag on performance as more sustainable companies struggled throughout the year in the face of rising geopolitical tensions and surging commodity prices. Despite the recent challenges, we continue to believe that ESG issues are also financial risks, making them particularly relevant to investment. Indeed, the connection between investment returns and sustainable outcomes is not weakening but becoming deeper and stronger over time. Whether its carbon pricing, plastics, minimum wages, or tax avoidance – these are all factors that are translating into corporate financial statements. As such, we will continue to incorporate ESG data into our stock selection decisions just as we do with financial and accounting data to identify the most attractive and sustainable companies available.

In summary, despite equity markets continuing to fall and investors being less keenly trained on company fundamentals than usual, the portfolio managed to keep pace with the benchmark up until the final month of the year. The portfolio's tilt towards a lower beta than that of the benchmark benefited the portfolio.

In terms of portfolio activity during the year, we added a new environmental alpha signal focusing on carbon intensity and a new social alpha signal that assesses the amount companies spend on research and development (R&D). The international commitment to limit global temperature increases as close as possible to 1.5 degrees celsius has prompted more countries and companies to establish carbon neutrality targets. Companies that can meet the ambitious climate goals set by the Paris Agreement will most likely be rewarded in the market. As such, we believe adding this signal to our stock selection model will enhance returns by helping us tilt towards companies that are further along in their net zero trajectory. Likewise, we believe that adding a R&D signal to our model will help enhance future returns. There is a large body of research that finds a strong positive link between R&D spending and subsequent profitability even after adjusting for size and other factor effects. We also implemented portfolio construction changes to help improve the diversification profile of the strategy.

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

# 4.26

# Aviva Investors UK Equity Alpha Fund

# Aviva Investors UK Equity Alpha Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | Since Launch |
|---|---|---|---|---|
| **UK Institutional Acc** | -0.41 | 2.19 | 3.35 | 3.65 |
| **Insured Pension Acc** | -0.40 | 3.46 | – | 5.42 |
| **UK Corporate Acc** | -0.35 | 3.48 | – | 4.45 |
| **UK FoF Acc Units** | -0.37 | - | – | 14.39 |
| **FTSE All Share Index (ex Aviva, ex Investment Trusts)**[1] | 1.63 | 2.25 | 2.82 | – |

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

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

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Fund Managers Report

## Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -0.4%* (net of fees). The Sub-fund's benchmark, the FTSE® All-Share Index[1] (excluding Aviva and Excluding Investment Trusts), returned 1.6% over the same period.

## Portfolio Review

UK equities outperformed other major markets in 2022 to post a modest gain. Rapidly rising energy prices partly caused by the Russia-Ukraine war contributed to extreme inflation that reached a 41-year high of 11.1% in October. In response, the Bank of England (BoE) raised interest rates by 3.25 percentage points over the year to leave them at 3.5% by December. This contributed to a slowdown in the economy's growth rate, with GDP contracting by 0.3% in the third calendar quarter. It is widely expected to post further negative growth in the short run. Economic instability rose sharply in the third quarter following a poorly received mini-budget that was followed by tax rises and spending cuts in the chancellor's Autumn Statement.

Within the market, energy was by far the strongest sector, with the oil majors BP and Shell making a pivotal contribution to performance thanks to a rallying crude price. The basic materials sector also benefited from an inflationary tailwind. Real estate, telecommunications and technology were the big losers.

The fund's underperformance was driven by both sector allocation and stock selection. At the sector level, being overweight telecommunications, industrials and technology was the principal drag. This more than offset the benefit of being underweight consumer discretionary. In terms of individual stocks, Countryside Properties and Tritax Big Box REIT were the biggest detractors as the real estate sector came under heavy selling pressure. Financials also suffered from weak stock picking, with fund manager Intermediate Capital being one of the main disappointments. On the positive side, Standard Chartered made a good contribution after posting strong revenue growth while commodity extractor Rio Tinto profited from a positive pricing environment. Shares of consumer healthcare products Haleon performed well after an initial fall following their spin out from GSK.

## Outlook

A new year normally brings renewed hopes, and most investors must be glad to see the end of such a difficult year in 2022. Although it is tempting to predict that many of the significant headwinds facing the market – namely persistently high inflation, weakening economic growth and war in Ukraine – will ease off sometime during the year, it is doubtful these issues will disappear fully. Inflation may be peaking but is likely to remain elevated. Economic growth may begin to show signs of recovery later in the year, but before that, it seems likely we are headed for a recession. As for the war in Ukraine, it is impossible to predict the outcome.

The UK continues to face a tough environment at home, with the biggest strike action since the 1970s, a protracted cost-of-living crisis and weakening economic trends. We expect to see downward revisions to earnings expectations in the coming quarters, reflecting the shallow economic recession, to weigh on the UK market. Additionally, the trajectory of interest rates will undoubtedly be an important factor behind the market. The BoE is expected to continue to raise rates in the first half of the year and most likely keep them high during most of 2023 unless inflation significantly falls from its current lofty levels.

At the start of 2023, the fund's main overweights were industrials, telecoms and technology. Consumer staples and utilities were the biggest underweights.

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

# 4.27

# Aviva Investors UK Equity Core Fund

# Aviva Investors UK Equity Core Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

It should be noted that this Sub-fund launched on 2 November 2022, so this assessment has been completed with limited reference data. The conclusions are, therefore, in a large part dependent upon the product feasibility assessment that was completed prior to launch which evidenced that the Sub-fund's long term objective and fees were appropriate for a fund with this strategy.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

# Aviva Investors UK Equity Core Fund (continued)

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

**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.**

# 4.28

# Aviva Investors UK Equity Dividend Fund

# Aviva Investors UK Equity Dividend Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | Since Launch |
|---|---|---|---|---|
| **UK Institutional Acc** | -2.22 | 0.09 | 2.28 | 2.62 |
| **UK Corporate Acc** | -2.31 | 0.06 | – | 1.74 |
| **Insured Pension Acc** | -2.31 | 0.06 | – | 1.74 |
| **FTSE All Share Index (ex Aviva, ex Investment Trusts)**[1] | 1.63 | 2.25 | 2.82 | – |

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

The Sub-fund aims to deliver an income return of at least 110% of the income return of the FTSE® All Share Index[1] over any given 12 month period, whilst aiming to grow your investment over the long term (5 years or more) by investing in shares of UK companies.

Over the year to 31 December 2022, the Sub-fund has achieved the income target, and has provided investors with an average yield of 116% relative to the benchmark yield over the last 5 years, whilst also delivering an annualised return of 2.28% over the same period.

The Board do however note that the Sub-fund has underperformed relative to the benchmark over this period, which can be attributed to the Sub-fund's underweight holdings in energy companies (and specifically the oil majors).

# Aviva Investors UK Equity Dividend Fund (continued)

Given that the Fund has a long term investment objective, the portfolio manager believes that holding traditional energy companies is not appropriate over the medium term, and has instead focused on energy companies which are already in the process of making the transition to a lower carbon economy. The portfolio manager has constructed a forward-looking diversified portfolio seeking best in class, resilient companies with pricing power to better manage inflation, which have robust business models, and therefore remains confident in this strategy over the longer term.

Although the Board are disappointed with the Fund's performance over the last year, they are mindful of the portfolio manager's history of delivering value to investors and believe that the investment philosophy adopted by the manager remains effective and will benefit investors over the long term.

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -2.3%* (net of fees). The Sub-fund's benchmark, the FTSE® All-Share Index (excluding Aviva and Excluding Investment Trusts)[1], returned 1.6% over the same period.

### Review

UK equities outperformed other major markets in 2022 to post a modest gain. Rapidly rising energy prices partly caused by the Russia-Ukraine war contributed to extreme inflation that reached a 41-year high of 11.1% in October. In response, the Bank of England (BoE) raised interest rates by 3.25 percentage points over the year to leave them at 3.5% by December. This contributed to a slowdown in the economy's growth rate, with GDP contracting by 0.3% in the third calendar quarter. It is widely expected to post further negative growth in the short run. Economic instability rose sharply in the third quarter following a poorly received mini-budget that was followed by tax rises and spending cuts in the chancellor's Autumn Statement.

Within the market, energy was by far the strongest sector, with the oil majors BP and Shell making a pivotal contribution to performance thanks to a rallying crude price. The basic materials sector also benefited from an inflationary tailwind. Real estate, telecommunications and technology were the big losers.

The fund generated a negative absolute return and underperformed its benchmark. Sector allocation was the main drag on returns and in particular the lack of exposure to the outperforming energy sector. Being underweight healthcare and overweight industrials also weighed on relative performance.

At the stock level, selection in financials was disappointing. Specialist asset manager Intermediate Capital was the weakest performer as it grappled with volatile markets.

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

On the positive side, being underweight consumer discretionary stocks and the real estate sector made solid contributions to returns. Stock selection was most notably effective in industrials. The best-performing individual stock was defence equipment manufacturer BAE Systems, which benefited from full order books as defence spending was ramped up by a number of governments in the wake of the Russian invasion of Ukraine.

### Outlook

A new year normally brings renewed hopes, and most investors must be glad to see the end of such a difficult year in 2022. Although it is tempting to predict that many of the significant headwinds facing the market – namely persistently high inflation, weakening economic growth and war in Ukraine – will ease off sometime during the year, it is doubtful these issues will disappear fully. Inflation may be peaking but is likely to remain elevated. Economic growth may begin to show signs of recovery later in the year, but before that, it seems likely we are headed for a recession. As for the war in Ukraine, it is impossible to predict the outcome.

The UK continues to face a tough environment at home, with the biggest strike action since the 1970s, a protracted cost-of-living crisis and weakening economic trends. We expect to see downward revisions to earnings expectations in the coming quarters, reflecting the shallow economic recession, to weigh on the UK market. Additionally, the trajectory of interest rates will undoubtedly be an important factor behind the market. The BoE is expected to continue to raise rates in the first half of the year and most likely keep them high during most of 2023 unless inflation significantly falls from its current lofty levels.

At the start of 2023 the main active positions in the fund were an overweighting of financials and an underweighting of energy.

**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.**

# 4.29

# Aviva Investors UK Listed Equity ex Tobacco Fund

# Aviva Investors UK Listed Equity ex Tobacco Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | Since Launch |
|---|---|---|---|
| **UK Corporate Inc** | 3.49 | 2.49 | 3.33 |
| **UK Institutional Acc** | 3.60 | 2.55 | 3.67 |
| **UK Corporate Acc** | 3.60 | 2.56 | 3.65 |
| **FTSE All Share ex Tobacco Total Return Index**[1] | 0.55 | 1.94 | – |

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

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

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

# Aviva Investors UK Listed Equity ex Tobacco Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Aviva Investors UK Listed Equity ex Tobacco Fund (continued)

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned 3.6%* (net of fees). The Sub-fund's benchmark, the FTSE® All-Share ex Tobacco Total Return Index[1], returned 0.6% over the same period.

### Portfolio Review

UK equities have been resilient, performing better than other world markets in 2022 as recessionary fears continue to loom large for advanced economies. The year has also seen some sharp rotations in equity markets as stocks that are perceived as growth stocks – which we have less exposure to - saw their share prices underperform. Companies in commodity areas of the market, such as mining and oils, performed strongly, as did defensive areas such as healthcare, consumer staples and utilities. Though, defensive areas of the market struggled in the fourth quarter as risk appetite returned to equity markets to the benefit of cyclical businesses. Against this backdrop, the portfolio has achieved strong relative performance.

Major positive performance contributions came from companies which have seen resilient trading despite the difficult economic environment. Within industrials, we saw a bounce-back from some of our holdings such as defence firm QinetiQ and infrastructure firm Balfour Beatty. QinetiQ continued to benefit from its organic growth potential with expected increases in defence spending resulting from the Ukraine crisis. Balfour Beatty reported strong trading, is making a significant share buyback and also holds around half of its assets in US dollars (thereby benefitting from US dollar appreciation). Stock selection with the consumer discretionary sector was also beneficial, led by education publisher Pearson and luxury goods firm Burberry. Pearson's improving share price rewarded our decision to add more to our holding earlier in the year as management continued to successfully execute its growth strategy. Within financials, Asian-focused bank Standard Chartered traded strongly benefitting from rising US interest rates. Miners Anglo American and BHP Group were also large positives for performance, though this was offset by not having exposure to Glencore. Though we have recently initiated a position in Glencore as we are attracted to the company's mix of forward facing minerals which are well positioned to benefit as the world moves to decarbonise energy and industry.

Performance negatives in 2022 were stock selection and positioning in the consumer staples sector, owning less than the benchmark in the energy sector which benefitted from rising oil and gas prices and our exposure to smaller companies. Our holding in the Schroder Institutional UK Smaller Companies Fund disappointed as typically domestically focused smaller companies underperformed the wider market over a deteriorating UK economic backdrop. Other disappointments included the largest individual detractor retailer Pets at Home. Though interim results in November showed a continued robust trend in sales as spending on pets has remained resilient, the market worried about cost headwinds. Shares in telecoms group BT were weak as the market focussed on some line losses in the near-term, partly impacted by strike action, however their fibre rollout is going well and the long-term returns from superfast broadband look attractive for them particularly as smaller, less well-financed competitors struggle to survive.

The deteriorating global economic environment poses significant challenges; however, inflation will eventually ease and the economy will return to growth in time. Despite these short-term challenges we remain focussed on companies' long-term fundamental prospects, particularly given the low valuations of UK corporates compared to history and to global peers. We have reduced our overweight position in mining relative to the benchmark (exiting BHP Group and reducing Rio Tinto to partly finance our Glencore purchase) and reduced exposure to industrials (exiting US building products distributor Ferguson) and sold out of UK retailer Next. We added to oil majors at the start of the year (BP and Shell) and utility SSE. Our flexible investment approach allows us to blend holdings with different characteristics into a portfolio we believe can perform in a range of macroeconomic and market environments.

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



AVIVA INVESTORS

# 4.30

# Aviva Investors UK Listed Equity Fund

# Aviva Investors UK Listed Equity Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | 3.71 | 2.74 | 3.71 | – | 4.07 |
| **ACS Acc (Class 1)** | 3.67 | 2.76 | – | – | 3.71 |
| **ACS Acc (Class 2)** | 3.67 | 2.76 | – | – | 3.71 |
| **Insured Pension Inc** | 3.71 | 2.79 | 3.77 | 6.97 | – |
| **UK Corporate Inc** | 3.70 | 2.72 | 3.73 | 6.72 | – |
| **FTSE All-Share TR**[1] | 0.34 | 2.30 | 2.92 | 6.21 | – |

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

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

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned 3.7%* (net of fees). The Sub-fund's benchmark, the FTSE® All-Share Total Return Index[1] returned 0.3% over the same period.

### Portfolio Review

UK equities have been resilient, performing better than other world markets in 2022 as recessionary fears continue to loom large for advanced economies. The year has also seen some sharp rotations in equity markets as stocks that are perceived as growth stocks – which we have less exposure to - saw their share prices underperform. Companies in commodity areas of the market, such as mining and oils, performed strongly, as did defensive areas such as healthcare, consumer staples and utilities. Though, defensive areas of the market struggled in the fourth quarter as risk appetite returned to equity markets to the benefit of cyclical businesses. Against this backdrop, the portfolio has achieved strong relative performance.

Major positive performance contributions came from companies which have seen resilient trading despite the difficult economic environment. Within industrials, we saw a bounce-back from some of our holdings such as defence firm QinetiQ and infrastructure firm Balfour Beatty. QinetiQ continued to benefit from its organic growth potential with expected increases in defence spending resulting from the Ukraine crisis. Balfour Beatty reported strong trading, is making a significant share buyback and also holds around half of its assets in US dollars (thereby benefitting from US dollar appreciation). Stock selection with the consumer discretionary sector was also beneficial, led by education publisher Pearson and luxury goods firm Burberry. Pearson's improving share price rewarded our decision to add more to our holding earlier in the year as management continued to successfully execute its growth strategy. Within financials, Asian-focused bank Standard Chartered traded strongly benefitting from rising US interest rates. Miners Anglo American and BHP Group were also large positives for performance, though this was offset by not having exposure to Glencore. Though we have recently initiated a position in Glencore as we are attracted to the company's mix of forward-facing minerals which are well positioned to benefit as the world moves to decarbonise energy and industry.

Performance negatives in 2022 were stock selection and positioning in the consumer staples sector, owning less than the benchmark in the energy sector which benefitted from rising oil and gas prices and our exposure to smaller companies. Our holding in the Schroder Institutional UK Smaller Companies Fund disappointed as typically domestically focused smaller companies underperformed the wider market over a deteriorating UK economic backdrop. Other disappointments included the largest individual detractor retailer Pets at Home. Though interim results in November showed a continued robust trend in sales as spending on pets has remained resilient, the market worried about cost headwinds. Shares in telecoms group BT were weak as the market focussed on some line losses in the near-term, partly impacted by strike action, however their fibre rollout is going well and the long-term returns from superfast broadband look attractive for them particularly as smaller, less well-financed competitors struggle to survive.

The deteriorating global economic environment poses significant challenges; however, inflation will eventually ease, and the economy will return to growth in time. Despite these short-term challenges we remain focussed on companies' long-term fundamental prospects, particularly given the low valuations of UK corporates compared to history and to global peers. We have reduced our overweight position in mining relative to the benchmark (exiting BHP Group and reducing Rio Tinto to partly finance our Glencore purchase) and reduced exposure to industrials (exiting US building products distributor Ferguson) and sold out of UK retailer Next. We added to oil majors at the start of the year (BP and Shell) and utility SSE. Our flexible investment approach allows us to blend holdings with different characteristics into a portfolio we believe can perform in a range of macroeconomic and market environments.

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

# 4.31

# Aviva Investors UK Listed Equity Income Fund

# Aviva Investors UK Listed Equity Income Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the ‘Value Assessment Approach’. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | 2.04 | 4.20 | 4.01 | – | 4.38 |
| **UK Corporate Inc** | 1.83 | 4.26 | 4.10 | 8.36 | – |
| **Insured Pension Inc** | 1.94 | 4.32 | 4.16 | 8.08 | – |
| **FTSE All-Share TR**[1] | 0.34 | 2.30 | 2.92 | 6.21 | – |

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

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

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

# Aviva Investors UK Listed Equity Income Fund (continued)

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned 1.8%* (net of fees). The Sub-fund's benchmark, the FTSE® All-Share Total Return Index[1], returned 0.3% over the same period.

### Portfolio Review

The UK ended 2022 as the top performing developed market and one of the only markets to deliver a positive absolute return for the calendar year. The headline performance numbers however mask that the overall market has been driven by a concentrated sub-set of stocks, notably the Oil & Gas majors, miners and banks. The FTSE 100 has drastically outperformed the FTSE 250 over the period. The cheapest pockets of the market outperformed their expensive counterparts as interest rate hikes along with recessionary fears dominated investor decision making.

Online education and publisher Pearson has been one of the leading contributors in 2022 for the portfolio. The company continues to transition from an analogue to digital business model. The business has exhibited strong organic digital growth in recent years however the market has historically been very focused on its legacy textbook business. In its more recent trading updates there have been clear incremental positives and we think these represent the initial fruits from the CEO's digital first strategy 2 years after being appointed during 2020. Pearson has also given some aggressive sales growth and profit targets, which we don't think are unattainable given the structural shift toward online education and we are confident that the current management team have the skill set and experience to help the business achieve them. The companies progress has also been recognised by a private equity company who bid three times to take over the entire company in Q1 this year. Whilst the bids were insufficient for the management team to engage, they highlight the value that third parties see in the business which is pleasing as shareholders.

Long term holding Centrica contributed positively over the period. The balance sheet of the business has improved over time and disposals have left it in a net cash position which is positive. Following the stabilisation of the balance sheet, and the reduction in irrational competition (as those competitors have gone bankrupt), we now wish to see the management team take action to improve the fundamental performance of their electricity supply business in particular. The shares are up c.75% over the last 18 months and we await the colour and strategy update management will provide within their upcoming annual results. Following the share price performance this year we have sized the position accordingly in portfolios, trimming where appropriate.

Shares in Italian Oil & Gas company Eni performed well over the year. Eni, like other O&G businesses, remains highly sensitive to the underlying oil price. Given the oil price tail wind this year the business has performed extremely well. The balance sheet is robust, management appear to have increased their focus on returns and improving cash generation and are making more sensible capital allocation decisions. Finally included in the valuation today is a renewable business with 2GW under management and a leading position in nuclear fusion. Eni is one of the most attractive O&G businesses globally, and we remain happy holders – we are also paid to wait for owning the shares with a 5% current dividend yield.

Emerging markets focused lender Standard Chartered has also performed strongly. The shares bounced off an extremely low base as the rising interest rate environment has dramatically improved revenue generation. Despite the share price performance this year we still think given its balance sheet strength and industry leading position in rapidly growing emerging end markets the business remains incredibly attractive.

# Aviva Investors UK Listed Equity Income Fund (continued)

**International Distribution Services** (formerly Royal Mail) was one of the larger detractors. Although parcel delivery is a growth area long-term, the deteriorating economic environment coupled with the now-past temporary boost from delivering Covid tests, means the market is again worried about structural pressures. Throw in an increasing cost-base and ongoing strike action, and profit margins are very likely to come under pressure. Certain process changes to improve efficiency have been implemented already and these are working well, and new automated parcel hubs are being built and commissioned. However, it is likely that the road to sustainably higher margins will require a prolonged struggle with the Union and, perhaps inevitably, further negative headlines and strikes. All told, the share performance over the past 12 months is deeply disappointing. The corollary of this is Royal Mail is outstandingly cheap today, but investors will need to be patient and look beyond execution risk and industrial relations risk, which has increased in the short term.

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

# 4.32

# Aviva Investors US Large Cap Equity Fund

# Aviva Investors US Large Cap Equity Fund

## Overall assessment

In line with the requirement to conduct a value assessment, the Board has concluded that all components of the assessment have been considered and the charges for each unit class are justified in the context of overall value being delivered to investors.

The following summarises the conclusions we have reached having considered the range of factors as set out in the 'Value Assessment Approach'. This applies to all unit classes in the Sub-fund unless we have specifically noted exceptions.

## Quality of service

We have considered the overall quality of the services provided to investors, and have concluded that Investors have received clear communications, and relevant information at appropriate times to enable them to make informed decisions, and the service delivered has been timely and of an appropriate quality.

## Performance

**Performance: Annualised net return (%)**

| | 1 Year | 3 Years | 5 Years | 7 Years | Since Launch |
|---|---|---|---|---|---|
| **UK Institutional Acc** | -9.76 | 12.48 | 11.97 | – | 12.26 |
| **ACS Acc (Class 1)** | -9.54 | 12.66 | – | – | 11.94 |
| **ACS Acc (Class 2)** | -9.54 | 12.66 | – | – | 11.94 |
| **UK Corporate Inc** | -9.74 | 12.47 | 11.97 | 14.70 | – |
| **S&P 500 TR GBP** | -7.79 | 11.17 | 12.02 | 14.75 | – |

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

The Sub-fund aims to grow your investment over the long term (5 years or more) by investing in shares of companies in North America, whilst the Sub-fund's performance is compared against the S&P® 500 Total Return GBP Index.

The volatile market conditions experienced throughout 2022 have resulted in a reduction in value of 9.74%, with the Sub-fund underperforming its benchmark by 1.94% for the same period. However, over the long term the Sub-fund continues to deliver growth, with an annualised net return over 3 years of 12.5%, which is 1.3% in excess of the benchmark over the same time period. In addition, the Sub-fund compares very favourably to similar funds over all periods under review.

# Aviva Investors US Large Cap Equity Fund (continued)

The Sub-fund has an expected tracking error (risk) range of 2% - 4%, however the annual tracking error is currently 7.8%. This is a consequence of the volatile market environment that we have experienced, rather than increased risk taken by the portfolio management team.

Therefore, the Board do not have any concerns with the management of the Sub-fund, however the risk range will be reviewed to determine whether this should be widened to reflect the greater volatility that is expected to persist for the foreseeable future. Any changes to the expected risk range will be notified to investors in due course.

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

## Authorised Fund Manager costs

We consider that the fees paid are reasonable when taking into account the underlying costs for the services provided and performance objectives set for the Sub-fund.

## Economies of scale

The specific benefits derived from economies of scale are returned to investors as a result of the single fee structure which operates for the entire Scheme, which enables each Sub-fund to benefit from the scale of the Scheme in totality.

We have concluded that all investors participated appropriately in the general economies of scale derived from investing with the Company based on a range of benefits and services provided and the overall fees charged. There has not been a material change in the size of the Scheme, or Sub-fund during the previous 12 months, and as such no additional savings have been identified.

## Comparable market rates

We have reviewed the fees paid for each of the services provided to the Sub-fund (internally or externally), and we consider these to be competitive relative to those charged by similar funds within the UK regulated funds market.

## Comparable services

We have reviewed those services which we consider to be comparable, and the fees we charge are deemed reasonable compared to fees charged by associated companies within the Aviva Group for comparable products of an equivalent size and similar investment objective and policy to the Sub-fund available in the UK.

## Classes of units

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

# Aviva Investors US Large Cap Equity Fund (continued)

## Fund Managers Report

### Performance

Over the twelve months ended 31 December 2022, the Sub-fund returned -9.7%* (net of fees). The Sub-fund's benchmark, the S&P® 500 Total Return GBP Index, returned -7.8% over the same period.

### Review

US equities saw steep declines in 2022. Despite relatively resilient earnings throughout much of the year, inflation, tightening monetary conditions and geopolitical tensions drove increased volatility across equity, bond and currency markets. Russia's invasion of Ukraine in late February caused a global shock, with equities declining and commodity prices soaring, given that Russia is a key producer of several important commodities. This contributed to a further surge in inflation as well as supply chain disruption. In effect this brought about an end to the loose monetary policy era across many developed markets as central banks moved to raise rates and halt asset purchase programmes synonymous with the previous decade. This dynamic kept shares prices under pressure through spring and summer of 2022 as investors moved to price in interest rate rises and an increased risk of recession. Shares did however make gains in November as improved sentiment drove a bear market rally but hawkish central bank rhetoric amidst a slowing growth backdrop ultimately led markets to further losses in December.

The portfolio underperformed the benchmark against this backdrop. Mega cap stock Alphabet – significant beneficiary of Covid "lockdown life" – was a notable underperformer as the company's core search advertising business suffered from a deterioration in macroeconomic conditions. The hiking rates environment drove a valuation de-rating that also proved to be a significant headwind for some of the portfolio's longer duration growth stocks. Software company Adobe and automatic identification and data capture manufacturing company Zebra Technologies experienced significant multiple contraction in this environment while this dynamic also put downward pressure on healthcare holding Edwards Lifesciences, which was compounded by disappointing earnings in the period.

There was however strong positive performance in other areas of the portfolio. An average overweight allocation to energy through positions in Schlumberger, ConocoPhillips and Coterra Energy was a significant contributor to relative returns as these companies posted supernormal profits owing largely to soaring energy prices. Traditional defensive stocks were also particularly resilient during the period as investors sought relative safety in a volatile environment. This was most notably represented in the portfolio by large cap pharmaceutical holdings Eli Lilly and Johnson&Johnson as well as healthcare provider UnitedHealth, which were all strong performers underpinned by robust earnings. Similarly, consumer staple stock Pepsico also achieved strong relative performance as the company was able to successfully pass higher costs through to consumers to drive strong operating performance.

Despite strong returns over recent months, global equity markets remain susceptible to shifting sentiment towards geopolitical tensions, inflation, economic growth and ultimately corporate earnings. Valuations have already significantly adjusted to reflect a change in the market environment and we believe reflect realistic expectations for inflation, rates and risk premia. Consequently, the source of risk has now shifted from valuation to earnings in light of the softer growth and prospects for a recession, which appears increasingly likely.

Schroders' proprietary Economic Activity Indicator signals a sharp downturn in activity and our economists now expect global growth of 2.6% for this year, slowing to just 1.5% growth for 2023. Apart from the Covid-19 pandemic, this will be the weakest year for global growth since 2009. We now expect major economies (US, Eurozone and UK growth) to enter recession.

We are therefore entering a phase in which the impact of slowing growth, rising costs and weaker confidence will be much more apparent in company financial results. While company fundamentals have held up reasonably well to date, we expect a more challenging environment for revenues and earnings over coming quarters, particularly in more cyclically exposed areas of the market.

# Aviva Investors US Large Cap Equity Fund (continued)

Weaker growth is already evident in company guidance, and revisions have already turned negative. But earnings estimates need to come down further, in our opinion. Consensus S&P 500 earnings of $232 for CY2023 still look optimistic, and we expect these to be revised down steadily over the coming months, with the biggest downgrades likely in the first half of the year as companies give conservative guidance around full year results and the reality of the slowdown becomes apparent.

While this might not necessarily appear to be constructive for equities in the short term, stock markets always look ahead, typically discounting a trough in earnings six to nine months ahead of the actual trough. That suggests that the recent rally in global equity markets was not without foundation, although there may be some further short-term disappointment to come as profitability pressures become more apparent.

One important caveat remains the risk of ongoing geo-political risks, such as further escalation in Ukraine or a hardening of China's stance on Taiwan. These are potential "Black Swan" events that are binary in nature and impossible to predict with any certainty. On the other hand, resolutions of the many geo-political and macro factors mentioned in this letter will drive a more positive outcome.

Against this backdrop we will continue to emphasise individual company fundamentals in our stock picking and will remain vigilant for opportunities presented by any market dislocation. We continue to strongly believe that companies who operate with "corporate karma" by treating all their stakeholders fairly stand to benefit in the long run, and no more so is that true in the environment we find ourselves in today.

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

# Index disclaimers

| | |
|---|---|
| **[1]FTSE International Limited** | "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. All rights in any FTSE index (the "Index") vest in FTSE International Limited ("FTSE"). Aviva Investors' Investment Funds ICVC has been developed solely by Aviva Investors UK Fund Services Limited. Any FTSE Index is calculated by FTSE or its agent. FTSE and its licensors are not connected to and do not sponsor, advise, recommend, endorse or promote the Funds which refer to a FTSE Index and do not accept any liability whatsoever to any person arising out of (a) the use of, reliance on or any error in the Index or (b) investment in or operation of the relevant Funds. FTSE makes no claim, prediction, warranty or representation either as to the results to be obtained from the relevant Funds or the suitability of the Index for the purpose to which it is being put by Aviva Investors UK Fund Services Limited. |
| **[2]MSCI Limited** | MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This prospectus is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. |
| **[4]IHS Markit Benchmark Administration Limited** | An index referenced as "Markit" is the proprietary property of Markit North America, Inc., Markit Indices GmbH, Markit Equities Limited and its affiliates ("Markit"), which are the index providers in respect of the relevant Fund and have been licensed for use in connection with the Fund (or other investment vehicles) or securities referenced in and associated to the relevant Fund.<br>Each party acknowledges and agrees that the relevant Fund is not sponsored, endorsed or promoted by Markit. Markit makes no representation whatsoever, whether express or implied, and hereby expressly disclaim all warranties (including, without limitation, those of merchantability or fitness for a particular purpose or use) with respect to the relevant index or any data included therein or relating thereto, and in particular disclaim any warranty either as to the quality, accuracy and/or completeness of the index or any data contained therein, the results obtained from the use of the index and/or the composition of the index at any particular time on any particular date or otherwise and/or the creditworthiness of any entity, or the likelihood of the occurrence of a credit event or similar event (however defined) with respect to an obligation, in the index at any particular time on any specific date or otherwise. Markit shall not be liable (whether in negligence or otherwise) to the parties or any other person for any error in the index, and Markit is under no obligation to advise the parties or any person of any error therein. Markit makes no representation whatsoever, whether express or implied, as to the advisability of purchasing or selling the relevant Fund, the ability of the index to track relevant markets' performances or otherwise relating to the index or any transaction or product with respect thereto, or of assuming any risks in connection therewith. Markit has no obligation to take the needs of any party into consideration in determining, composing or calculating the index. No party purchasing or selling the associated Fund nor Markit shall have any liability to any party for any act or failure to act by Markit in connection with the determination, adjustment, calculation or maintenance of the index. Markit and its affiliates may deal in any obligations that compose the index, and may, where permitted, accept deposits from, make loans or otherwise extend credit to, and generally engage in any commercial or investment banking or other business with the issuers of such obligations or their affiliates, and may act with respect to such business as if the index did not exist, regardless of whether such action might adversely affect the index or the connected Fund. |

# Important information



421144, April 2023

# Contact

Aviva Investors
80 Fenchurch Street
London EC3M 4AE
+44 (0)20 7809 6000

**www.avivainvestors.com**