2023

Value Assessment Report

Aviva Investors Select Funds ICVC

It takes Aviva Investors

Contents

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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 for the year to 28 February 2023.

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 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. This includes the introduction of an economies of scale discount for our direct retail investors, which applies depending on the size of individual funds, as well as lowering fees for other investors where appropriate. We have also made changes to some funds' investment objectives and continue to look for ways to improve outcomes, as we strive to deliver value for our investors.

However, these changes have been 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 and has had a negative impact on Fund performance over the last year.

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

The Board takes the Value Assessment very seriously and the rigorous process that we have implemented will continue to drive improvements where they are necessary. Once again, we have implemented a number of changes to the review process throughout the year, including to this report. I hope that you will find the introduction of a consolidated report, together with additional information and fund ratings, helpful when interpreting the results of this review. If you would like to provide any feedback on this report it would be very much appreciated as we look to make further improvements going forward.

Please contact our customer service helpline on 0800 051 2003 between the hours of 8:30 and 5:30 Monday to Friday, or alternatively write to us at enquiries.uk@avivainvestors.com.

If you would like to understand more about how the Value Assessment is carried out and the factors we consider, I would encourage you to read our Value Assessment Approach which explains how we have reached our conclusions, and can be found here: Value assessment approach - Aviva Investors.

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"

How we have considered performance in the face of challenging markets

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 as 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 started 2022 at 5.5% and peaked in October at 11.1%, and has remained above 10% since then, 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 nine times between January 2022 and February 2023, leaving the base rate at 4.0% at the point of this review. This compared to just 0.1% during the pandemic.

As a result, bond markets have been exceptionally weak, as UK government bonds (gilts) suffered a major sell-off as investors responded to the 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 result of this is that typically low risk bond markets experienced high levels of volatility, causing funds traditionally viewed as a safer low risk option to suffer losses.

To put this in context, the Bloomberg Global Aggregate Corp Index, which is often used to measure fixed income markets, was down 10% over the year to February 2023, and the MSCI World Index, which is widely used to measure global equities was down 4% in sterling terms over the same period. In contrast the UK Equity market continued to make a recovery following the September budget and the FTSE All Share Index was up 7% over the year.

The events described have had a negative impact on the world's major economies with the result that some Funds under review have delivered negative absolute 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.

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

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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.

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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.

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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

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.

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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

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Our approach

An introduction to Value Assessments

As Authorised Fund Manager ('AFM') of the 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 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 **customer services** provided, using investor satisfaction surveys, 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 fund performance, after the deduction of expenses, is within a reasonable range of outcomes relative to the 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 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 fund's peer group, and whether the fund operated in accordance with its respective risk limits and investment restrictions.

Fund performance, as measured against its objectives, is assessed in 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 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 funds within the Fund Manager Report section of the Value Assessment, covering the period relevant to that report. More up to date information is available in the regular fund factsheets and updates, available on our website.

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 fund.

We use a Fund Management Fee ('FMF') to deduct the charges from the funds, this is a single all-inclusive charge and is designed to provide a straightforward, easy to understand charging model for investors.

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

- the fees and expenses of the Company as AFM
- the fees and expenses of the Investment Manager
- the fees and expenses of the Depositary
- the fees and expenses of the Custodian
- the fees and expenses of the Auditor
- the permitted costs in connection with periodic statements and accounts
- FCA fees

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

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 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 share class and the extent to which investors should benefit from financial savings that result.

For example, we will consider whether the FMF fairly reflects the fees charged in respect of the third party supplied services, which should be competitive due to the scale of Aviva and the potential breadth of other Aviva product ranges the supplier provides services for, allowing us to obtain favourable rates.

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

In looking at whether investors have benefited appropriately, 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.

In reaching a conclusion, we will assess the extent to which investors in our direct retail share classes have already benefited from the automatic discount which is applied to each fund when it reaches a certain level of assets under management (AUM), with the discount ranging from 0.01% to 0.05% dependent on the complexity of the fund. For further details on this policy, please refer to the relevant Prospectus. All other share classes will be assessed on a case by case basis.

Comparable market rates

We consider whether the Ongoing Charge Figure (OCF) for each share class is reasonable compared to similar funds and share 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 that make up the overall OCF may be difficult because information is not generally publicly available and is affected by numerous factors. As noted, the underlying expenses included in the FMF are routinely reviewed and this component is focused on the overall fee for a share class in comparison to a suitable peer group.

Where the total charges (as calculated by the OCF) are greater than the average cost of equivalent peer group funds, we will review the FMF 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 fund are consistent with those charged throughout the Aviva Group. This considers similar 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

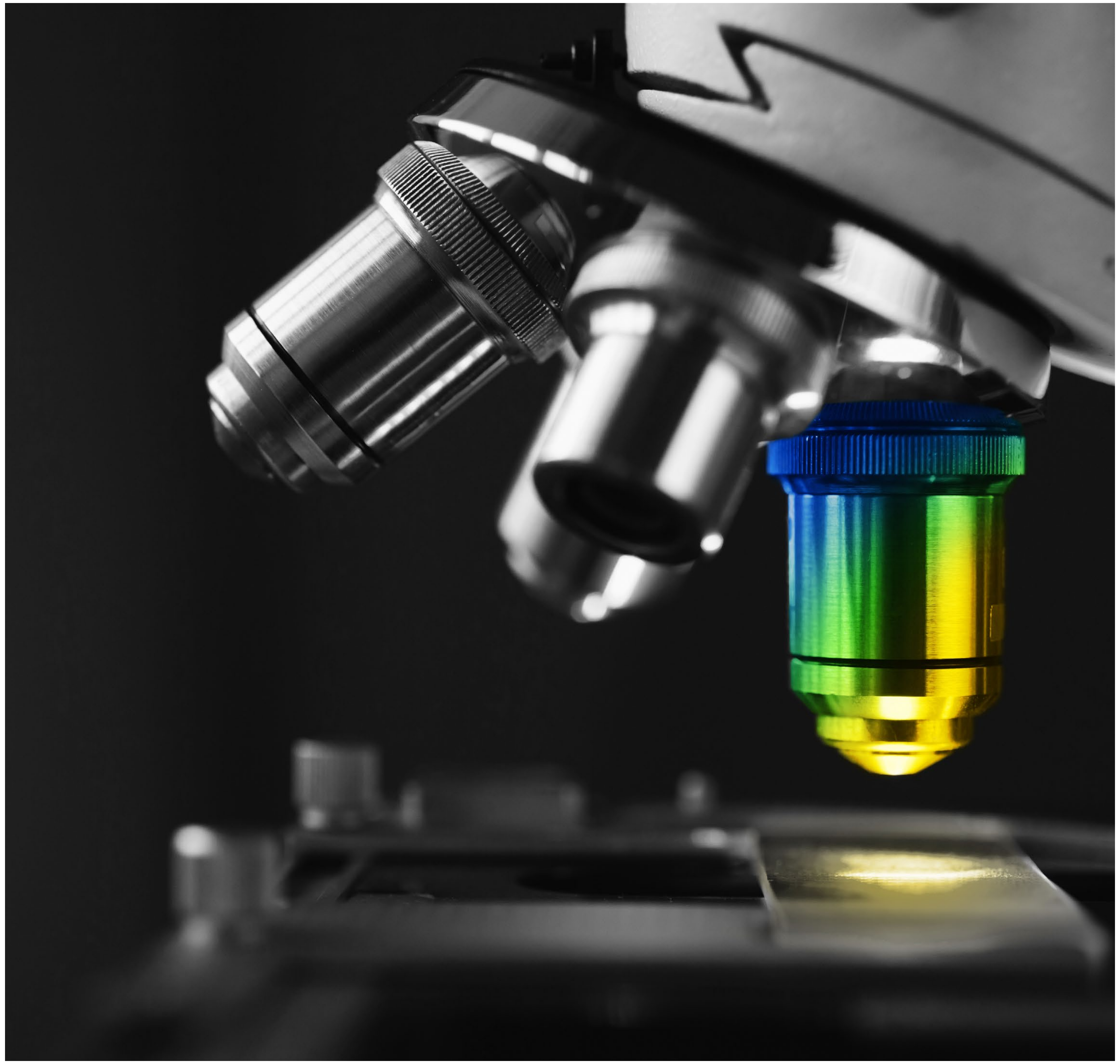
We assess whether investors hold shares in the most appropriate share class, in terms of the service offered, entry criteria and fees applied.

We routinely carry out an assessment of whether investors hold units in the most appropriate share class. In the past this has prompted the closure or merger of a number of share classes, along with the amendment of some minimum investment limits and share class eligibility criteria, and the removal of trail commission to advisers. These changes have resulted in some investors being moved into alternative share classes that either had fees of an equivalent or lower level than they had been paying previously.

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

Other factors

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 fund.



Our ratings explained

Individual Component Ratings

A green rating means that the Board is satisfied that the component is delivering value, and there are no issues or concerns with that specific element of the fund.

An amber rating means that the Board has identified some areas for improvement within that component, however investors have still received value from that component. This is because action may have already been taken throughout the normal course of business to address these concerns, or there may be other mitigating factors. Additional information will be included in the individual fund reports, including the reason this element has been rated amber, and any action taken to address the concern.

A red rating indicates that the Board has identified more serious concerns with the component, and therefore value may not be being delivered to investors. This could include situations where actions taken previously to address an amber rating may not have had the desired effect, or a new issue has been identified which hasn't yet been addressed. The individual fund reports will provide further information on what action is being taken to address the issue.

Overall Fund Ratings

A green rating means that the Board is satisfied that the fund is delivering value to investors. A fund may be rated green overall whilst having individual amber component ratings if the Board is satisfied that overall value has still been delivered to investors and/or actions are already being taken which will address these concerns.

An amber rating means that the Board has identified some areas for improvement, which will be reflected within the individual amber or red ratings for one or more of the components. This will usually mean that the Board believes that the individual components require further action to be taken to improve the rating in the future, and this will be detailed within the report.

A red rating indicates that the Board is not satisfied that the fund is delivering value to investors and action must be taken in order to meet the requirements of the value assessment in the future. It may also mean that actions have been taken previously to address these issues but these have not had the desired effect, and the Board therefore requires further action to be taken in the best interests of investors over the longer term.

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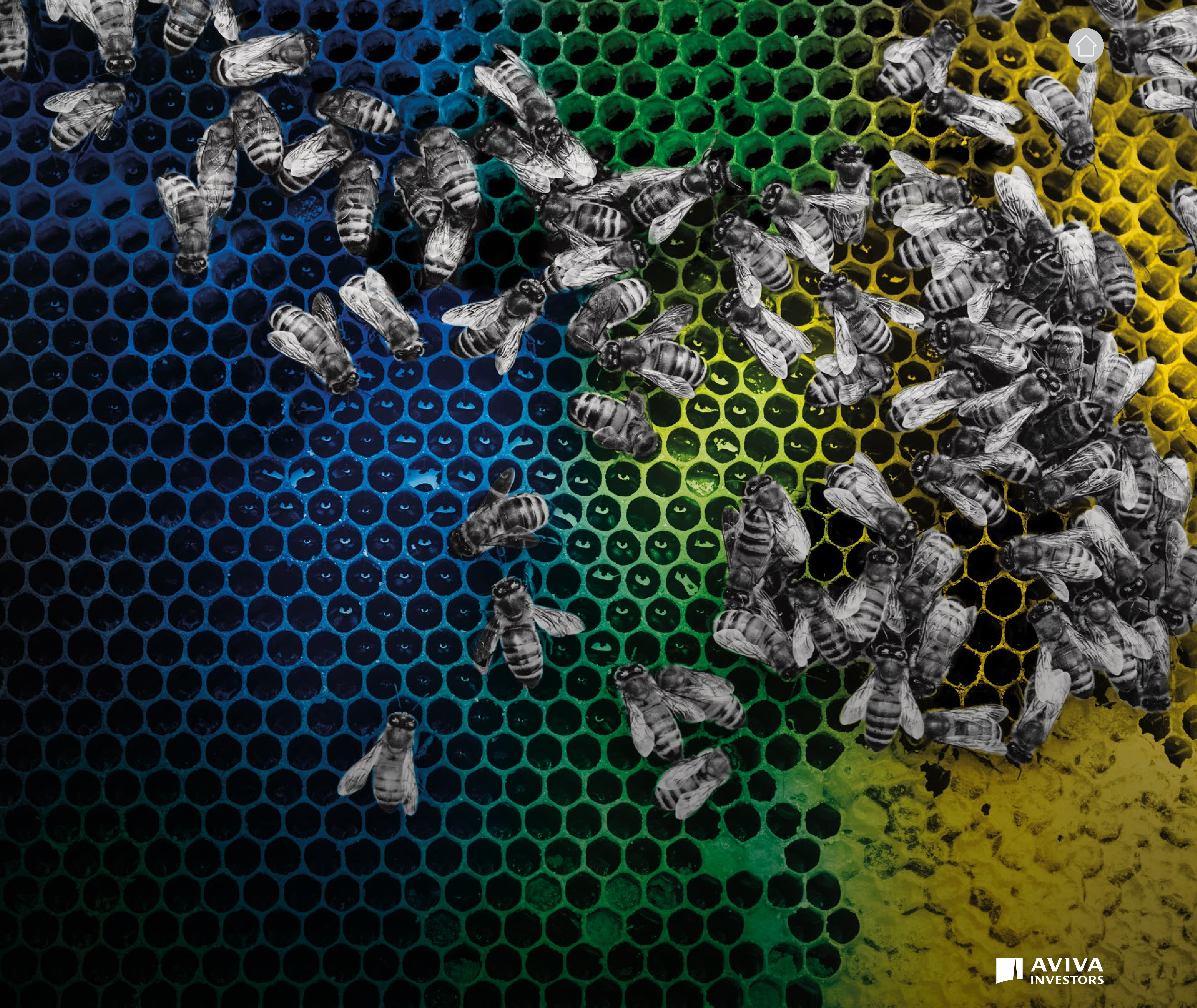
Types of share classes



Types of share classes available to investors

Understanding our costs

Our funds are available to all types of investors from individuals who wish to invest in an ISA, starting at £50 per month, up to large investors, investing on behalf of their own client base, such as a company pension scheme. We take a single Fund Management Fee (FMF) from our funds to cover all the costs incurred in running a fund and generating a profit for the business. The FMF charged to investors will depend on the costs incurred. We use the FMF so that our clients know exactly what they are paying to invest, avoiding fluctuating charges and making it easy to compare against other funds. The fees that are paid by our external investors cover the costs of the following:

Cost structure key

Investment Management Costs

The charge we pay for the investment management team to make the investment decisions for the fund.

The investment management costs are paid by all investors, and this is where the bulk of the fee goes to pay for the research and expertise to make the investment decisions on your behalf.

Fund Administration Costs

This includes charges for Fund Accounting, Custody, Depositary, Regulatory and Audit; covering the costs associated with valuing the assets, safe keeping of the assets, along with ensuring the fund's accounts are fully audited and they are in compliance with the regulations.

All investors pay a share of these costs, they are essential for running the Funds, regardless of the type of investor so it is fair that these costs are shared.

Customer Service Costs

This covers the costs associated with buying into and selling out of the fund, along with having a dedicated helpline to assist with investor queries. It also covers the costs of the 6 monthly statements that you receive or when we need to write to you or provide updates about your investment.

Economies of Scale: When a fund reaches a certain size, dependent on the complexity of the fund, the fees of our direct retail customers (share class 1) are automatically reduced, ensuring that our individual investors are receiving the benefits of savings that are achieved when a fund grows.

Unit classes	Investor type	Cost levels	Cost breakdown	Subscription level
Share Class 1	**Private Individuals** who have invested into a Fund directly through Aviva Investors or via an Independent Financial Advisor		Clients in these classes will pay a share of the costs incurred by the fund, and have access to our contact centre, either by phone or in writing.	Minimum initial subscription £1,000
Share Class 2	**Investors** who have bought a Fund through an intermediary, such as an investment platform		Clients in this class will pay less for Investor Communication Costs because the platform manager provides the individual client support.	Minimum initial aggregate subscription £250,000
Share Class 3 **Share Class 5**	**Large institutional investors**, investing on behalf of pension funds, or wealth managers		Clients in this class will pay less because they are large institutional investors and do not require administration support.	Minimum initial subscription £10,000,000

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Aviva Investors Fund Reports

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Aviva Investors US Equity Income Fund

Aviva Investors US Equity Income Fund

Overall assessment

Summary Ratings	Share Class 1	Share Class 2	Share Class 3	Share Class 5
Overall	●	●	●	●
Quality of service	●	●	●	●
Performance	●	●	●	●
Authorised fund manager costs	●	●	●	●
Economies of scale	●	●	●	●
Comparable market rates	●	●	●	●
Comparable services	●	●	●	●
Classes of units	●	●	●	●

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 share 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 share classes in the 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 (%)	Share Class 1	Share Class 2	Share Class 3	Share Class 5	Share Class 2 USD	Benchmark^
1 Year	7.53	7.81	7.93	8.02	-2.64	7.60
3 Years	11.39	11.66	11.97	11.83	9.34	13.07
5 Years	8.69	8.99	9.32	9.14	6.09	9.96
7 Years	9.83	10.17	10.63	–	8.06	12.43
Since launch	–	–	–	7.62	–	–

^Russell 3000 Value TR[1].

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

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

Aviva Investors US Equity Income Fund (continued)

We have reviewed the Fund's overall performance after charges, relative to its investment objectives, policy and strategy, and the 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. You can find more detailed information on fund performance within the Fund factsheet on our website.

Authorised Fund Manager costs

Authorised Fund Manager Costs				
	Share Class 1	**Share Class 2**	**Share Class 3**	**Share Class 5**
Fund management fee	1.00	0.75	0.53	0.55

The Fund Management Fee (FMF) is a single charge paid to the Authorised Fund Manager, and we consider this to be reasonable when taking into account the underlying costs for the services provided and performance objectives of the Fund.

Economies of scale

We have concluded that all investors participated appropriately in general economies of scale derived from investing with the Company based on a range of benefits and services provided and overall fees charged. There has not been a material change in the size of the Fund during the previous 12 months. 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 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 Fund available in the UK.

Classes of units

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

Aviva Investors US Equity Income Fund (continued)

Fund Managers Report

Performance

Over the twelve months ended 28 February 2023 the Fund (share class 1, net of fees) returned of 7.53%*. The Funds benchmark, the Russell® 3000 Value Index[1], returned 7.6% over the same period.

Portfolio Review

In Q1 2022, any remaining argument that the spike in inflation was 'transitory' was largely scuttled. According to the U.S. Bureau of Labor Statistics, the Consumer Price Index rose +8.5% in the 12 months ending in March 2022, the largest annual increase in four decades. Increased prices for gasoline, shelter, and food were the largest contributors to the surge, but used car prices finally rolled over. Fueled first by the global supply chain disruptions and then by the war in Ukraine, commodity prices surged with the Bloomberg Commodity Index up +25%, the Brent Crude up +35%, and the Producer Price Index hitting a series high of +11.2%. According to Bank of America/Merrill Lynch, the S&P 500 Energy sector posted its strongest quarterly outperformance (+44%) at the time since it began collecting data in 1970. In response to the accelerating decline in purchasing power of the dollar, central bank officials increased the federal funds rate by +25 bps and openly discussed balance sheet reduction in mid-March. The sudden tightening in monetary policy prompted a sharp spike in longer term interest rates, as the rate on two-year U.S. Treasuries more than tripled to 2.43% and the five-year Treasury rate doubled to 2.55%, resulting in the worst quarterly performance for bonds in 40 years at the time.

The post-COVID-19 bull market came to a sudden halt in the first half of 2022 as the S&P 500 declined more than 20% from its peak in the market's worst start to a year since 1962. Federal Reserve officials increased interest rates numerous times in 2022, yet reported inflation was still accelerating as the Consumer Price Index (CPI) was up over +8% over the prior 12 months, the highest reading since then Fed Chairman Paul Volcker finally whipped inflation 41 years ago. Fed Chairman Jerome Powell et al. elected to increase the Federal funds rate at the fastest pace in decades. While the data supports an aggressive approach, this response only amplified investors' concerns the Fed was still scrambling to catch up with inflation and the opportunity to rein in prices without prompting an economic 'hard landing' may already have passed. Fixed income markets signaled concerns about the economy with the yield curve inverted and corporate spreads widening. In August 2022, S&P's composite PMI measure, which combines both manufacturing and services activity, contracted by the sharpest amount since May 2020, and the Atlanta Fed GDPNow projection for Q3 GDP growth dropped to a measly +0.3%, making it highly possible that economic activity has declined for three quarters in a row at the time.

Fed officials continued their relentless battle against inflation in Q3, even as the impacts of their earlier interventions started to be felt. Over two meetings, the FOMC raised the fed funds target range by 150 bps to 3.00%-3.25%, the highest level since the beginning of 2008, and the fastest increase in the policy rate since December 1980. In September, quantitative tightening ramped to its full potential of $95 B per month in balance sheet reduction. This aggressive policy response stands in stark contrast to more measured moves in Europe, the United Kingdom, and Japan which has resulted in dramatic currency movements as the Euro/USD moved below parity, the British Pound very nearly so, and the Yen's collapse prompted the Bank of Japan to intervene. Fed Chairman Jerome Powell seems inured to the evident strains in the global financial system and appears willing to risk recession in his pursuit of 2% inflation. In that vein, the Fed's preferred measure of inflation, the PCE Deflator, continued to move higher throughout the quarter, fueling concern that absent a crisis, monetary policy would tighten even further after the election. However, there were early signs inflationary pressure was easing as the Atlanta Fed's Flexible CPI dropped from recent highs, and the University of Michigan inflation expectations index moved notably lower at the time.

Aviva Investors US Equity Income Fund (continued)

With its announcement of a 50 bps increase in the fed funds target rate in December, the Fed put the bow on its most aggressively hawkish year in a generation. Over the span of 273 days and seven meetings, it moved the target interest rate from zero to 4.25%-4.50%, the highest level since 2007. In addition, Fed officials started to pare down the nearly $9 T in assets that had accumulated on the central bank's balance sheet, allowing it to shrink by more than $400 B from the April peak. As the quarter progressed, the impacts of this relentless battle against inflation started to register across the global economy – yield curves inverted, inflationary pressure began to ebb, the University of Michigan noted inflationary concerns were easing, the U.S. housing market cooled down sharply, and global recession concerns grew. Apparently of the belief that much of the heavy lifting is now behind them, Fed officials communicated that they plan to take a more measured, data dependent course in 2023.

In the period, mid cap stocks outperformed large and small cap, as the Russell Midcap index returned -4.99% versus -8.21% and -6.02% for the Russell 1000 and Russell 2000 indexes, respectively. Value stocks outperformed their growth peers. Among small caps, the Russell 2000 Value outperformed the Russell 2000 Growth by +352 bps. Among large caps, the Russell 1000 Value outperformed the Russell 1000 Growth by +1,053 bps.

The largest positive drivers of relative return were stock selection in Financials (+72 bps) and Utilities (+49 bps). The Portfolio holdings in the Financials sector tend to be more focused on insurance than banking, a fact which contributed positively to relative results in the period. Among the insurance holdings of note were Progressive Corp. (PGR: +36%) and Axis Capital Holdings Ltd. (AXS: +15%), both of which benefited from continued improvement in the industry's pricing power. Results were mixed among holdings in the Utilities sector but the Portfolio's largest position in the sector, AES Corp. (AES: +20%), was a standout in the period and was responsible for the positive stock selection. AES is increasingly recognized for its aggressive efforts to de-carbonize its generation capacity and success in leveraging its independence to partner with large electricity consumers that are pursuing their own carbon reduction goals.

The holdings with the highest contribution to active return in the Portfolio were Progressive Corp. (PGR: +36%, +107 bps), AES Corp. (AES: +20%, +76 bps), and Marathon Petroleum Corp. (MPC: +25%, +75 bps).

The largest negative drivers of relative return were stock selection in Energy (-129 bps) and the overweight in Information Technology (-57 bps). The underperformance in Energy was largely driven by the low beta approach which generally characterizes our positioning in the sector. Our focus on dividends leads us to look for opportunities among companies that can generate consistent cash flows from the volume of energy demanded rather than the more volatile cash flows that are generated by the massive price swings. As such we were pleased to see the sector was the top performer in the period, but not surprised that our conservative positions underperformed their benchmark peers. Among Information Technology holdings, the largest position in the Portfolio, Oracle Corp. (ORCL: +17%), had a strong showing in the period, but this was overshadowed by the adverse results of the positions in Corning Inc. (GLW: -13%), QUALCOMM Inc. (QCOM: -27%), and Fidelity National Information Systems Inc. (FIS: -32%).

The holdings with the lowest contribution to active return in the Portfolio were Verizon Communications Inc. (VZ: -23%, -75 bps), Truist Financial Corp. (TFC: -21%, -62 bps), and Fidelity National Information Services Inc. (FIS: -32%, -56 bps).

As of February 28, the Portfolio held a total of 49 positions. During the period, we established 10 new positions and eliminated 9.

Aviva Investors US Equity Income Fund (continued)

Outlook

We expect the first half of 2023 will prove to be volatile as monetary policy becomes less predictable and more reactionary to incremental data. We anticipate that this will lead to an explosion of diverging viewpoints about what each data point portends for upcoming policy decisions and how exactly the Fed will, or should, react. In the end, we expect the fed funds rate will be higher in June than it was at the start of the year, but we still believe that the proper question is not how many times, or when, the Fed will raise rates in 2023, but instead what will be the extent of the economic slowdown that this tightening engenders? Fed Chairman Jerome Powell has been firm in his position that policymakers are prepared to push the economy into a shallow recession to bring inflation under control, and we think it prudent to take him at his word. Compounding this uncertainty, as the impact of higher rates slowly takes hold, the probability of financial disruptions (including the recent bank run at SVB) escalate. Lastly, investors appear to have become inured to the immense risks that the war in Ukraine still presents to the global economy, especially if the pace of the conflict reaccelerates in the spring. As we noted in Q3, we cannot know how this event will resolve itself, and it is natural to hope that Vladimir Putin or his replacement will step back and sue for peace, but sadly, this wildcard could continue to ravage lives and linger over markets for much of 2023. We believe a cocktail of forces, namely slowing economic growth, higher interest rates, losses on speculative asset classes, and a systematic decline in trust, will drive outperformance for both value and dividend focused portfolios in the coming years.

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

5.02

Aviva Investors US Equity Income Fund II

Aviva Investors US Equity Income Fund II

Overall assessment

Summary Ratings	Share Class 1	Share Class 2	Share Class 3	Share Class 5
Overall	●	●	●	●
Quality of service	●	●	●	●
Performance	●	●	●	●
Authorised fund manager costs	●	●	●	●
Economies of scale	●	●	●	●
Comparable market rates	●	●	●	●
Comparable services	●	●	●	●
Classes of units	●	●	●	●

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 share 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 share classes in the 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 (%)	Share Class 1	Share Class 2	Share Class 3	Share Class 5	Share Class 2 USD	Benchmark^
1 Year	8.09	8.39	8.54	8.61	-2.11	7.60
3 Years	11.72	12.01	12.33	12.17	9.35	13.07
5 Years	8.64	8.97	9.31	9.12	6.02	9.96
7 Years	9.56	10.03	10.49	–	7.89	12.43
Since launch	–	–	–	7.52	–	–

^Russell 3000 Value TR[1].
Performance basis: Mid to mid, net income reinvested, net of ongoing charges and fees, net of tax payable by the Fund. The figures do not include the effect of any exit or entry charge.
Full performance data is available in the Fund Fact Sheet, which can be found here Fund centre - Aviva Investors

Aviva Investors US Equity Income Fund II (continued)

We have reviewed the Fund's overall performance after charges, relative to its investment objectives, policy and strategy, and the 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. You can find more detailed information on fund performance within the Fund factsheet on our website.

Authorised Fund Manager costs

Authorised Fund Manager Costs				
	Share Class 1	**Share Class 2**	**Share Class 3**	**Share Class 5**
Fund management fee	1.00	0.75	0.53	0.55

The Fund Management Fee (FMF) is a single charge paid to the Authorised Fund Manager, and we consider this to be reasonable when taking into account the underlying costs for the services provided and performance objectives of the Fund.

Economies of scale

We have concluded that all investors participated appropriately in general economies of scale derived from investing with the Company based on a range of benefits and services provided and overall fees charged. There has not been a material change in the size of the Fund during the previous 12 months. 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 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 Fund available in the UK.

Classes of units

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

Fund Managers Report

Performance

Over the twelve months ended 28 February 2023 the Fund (share class 1, net of fees) returned of 8.09%*. The Funds benchmark, the Russell® 3000 Value Index[1], returned 7.60% over the same period.

Portfolio Review

In Q1 2022, any remaining argument that the spike in inflation was 'transitory' was largely scuttled. According to the U.S. Bureau of Labor Statistics, the Consumer Price Index rose +8.5% in the 12 months ending in March 2022, the largest annual increase in four decades. Increased prices for gasoline, shelter, and food were the largest contributors to the surge, but used car prices finally rolled over. Fueled first by the global supply chain disruptions and then by the war in Ukraine, commodity prices surged with the Bloomberg Commodity Index up +25%, the Brent Crude up +35%, and the Producer Price Index hitting a series high of +11.2%. According to Bank of America/Merrill Lynch, the S&P 500 Energy sector posted its strongest quarterly outperformance (+44%) at the time since it began collecting data in 1970. In response to the accelerating decline in purchasing power of the dollar, central bank officials increased the federal funds rate by +25 bps and openly discussed balance sheet reduction in mid-March. The sudden tightening in monetary policy prompted a sharp spike in longer term interest rates, as the rate on two-year U.S. Treasuries more than tripled to 2.43% and the five-year Treasury rate doubled to 2.55%, resulting in the worst quarterly performance for bonds in 40 years at the time.

The post-COVID-19 bull market came to a sudden halt in the first half of 2022 as the S&P 500 declined more than 20% from its peak in the market's worst start to a year since 1962. Federal Reserve officials increased interest rates numerous times in 2022, yet reported inflation was still accelerating as the Consumer Price Index (CPI) was up over +8% over the prior 12 months, the highest reading since then Fed Chairman Paul Volcker finally whipped inflation 41 years ago. Fed Chairman Jerome Powell et al. elected to increase the Federal funds rate at the fastest pace in decades. While the data supports an aggressive approach, this response only amplified investors' concerns the Fed was still scrambling to catch up with inflation and the opportunity to rein in prices without prompting an economic 'hard landing' may already have passed. Fixed income markets signaled concerns about the economy with the yield curve inverted and corporate spreads widening. In August 2022, S&P's composite PMI measure, which combines both manufacturing and services activity, contracted by the sharpest amount since May 2020, and the Atlanta Fed GDPNow projection for Q3 GDP growth dropped to a measly +0.3%, making it highly possible that economic activity has declined for three quarters in a row at the time.

Fed officials continued their relentless battle against inflation in Q3, even as the impacts of their earlier interventions started to be felt. Over two meetings, the FOMC raised the fed funds target range by 150 bps to 3.00%-3.25%, the highest level since the beginning of 2008, and the fastest increase in the policy rate since December 1980. In September, quantitative tightening ramped to its full potential of $95 B per month in balance sheet reduction. This aggressive policy response stands in stark contrast to more measured moves in Europe, the United Kingdom, and Japan which has resulted in dramatic currency movements as the Euro/USD moved below parity, the British Pound very nearly so, and the Yen's collapse prompted the Bank of Japan to intervene. Fed Chairman Jerome Powell seems inured to the evident strains in the global financial system and appears willing to risk recession in his pursuit of 2% inflation. In that vein, the Fed's preferred measure of inflation, the PCE Deflator, continued to move higher throughout the quarter, fueling concern that absent a crisis, monetary policy would tighten even further after the election. However, there were early signs inflationary pressure was easing as the Atlanta Fed's Flexible CPI dropped from recent highs, and the University of Michigan inflation expectations index moved notably lower at the time.

Aviva Investors US Equity Income Fund II (continued)

With its announcement of a 50 bps increase in the fed funds target rate in December, the Fed put the bow on its most aggressively hawkish year in a generation. Over the span of 273 days and seven meetings, it moved the target interest rate from zero to 4.25%-4.50%, the highest level since 2007. In addition, Fed officials started to pare down the nearly $9 T in assets that had accumulated on the central bank's balance sheet, allowing it to shrink by more than $400 B from the April peak. As the quarter progressed, the impacts of this relentless battle against inflation started to register across the global economy – yield curves inverted, inflationary pressure began to ebb, the University of Michigan noted inflationary concerns were easing, the U.S. housing market cooled down sharply, and global recession concerns grew. Apparently of the belief that much of the heavy lifting is now behind them, Fed officials communicated that they plan to take a more measured, data dependent course in 2023.

In the period, mid cap stocks outperformed large and small cap, as the Russell Midcap index returned -4.99% versus -8.21% and -6.02% for the Russell 1000 and Russell 2000 indexes, respectively. Value stocks outperformed their growth peers. Among small caps, the Russell 2000 Value outperformed the Russell 2000 Growth by +352 bps. Among large caps, the Russell 1000 Value outperformed the Russell 1000 Growth by +1,053 bps.

The largest positive drivers of relative return were stock selection in Financials (+70 bps) and Utilities (+49 bps). The Portfolio holdings in the Financials sector tend to be more focused on insurance than banking, a fact which contributed positively to relative results in the period. Among the insurance holdings of note were Progressive Corp. (PGR: +36%) and Axis Capital Holdings Ltd. (AXS: +15%), both of which benefited from continued improvement in the industry's pricing power. Results were mixed among holdings in the Utilities sector but the Portfolio's largest position in the sector, AES Corp. (AES: +20%), was a standout in the period and was responsible for the positive stock selection. AES is increasingly recognized for its aggressive efforts to de-carbonize its generation capacity and success in leveraging its independence to partner with large electricity consumers that are pursuing their own carbon reduction goals.

The holdings with the highest contribution to active return in the Portfolio were Progressive Corp. (PGR: +36%, +107 bps), AES Corp. (AES: +20%, +75 bps), and Marathon Petroleum Corp. (MPC: +25%, +74 bps).

The largest negative drivers of relative return were stock selection in Energy (-129 bps) and the overweight in Information Technology (-60 bps). The underperformance in Energy was largely driven by the low beta approach which generally characterizes our positioning in the sector. Our focus on dividends leads us to look for opportunities among companies that can generate consistent cash flows from the volume of energy demanded rather than the more volatile cash flows that are generated by the massive price swings. As such we were pleased to see the sector was the top performer in the period, but not surprised that our conservative positions underperformed their benchmark peers. Among Information Technology holdings, the largest position in the Portfolio, Oracle Corp. (ORCL: +17%), had a strong showing in the period, but this was overshadowed by the adverse results of the positions in Corning Inc. (GLW: -13%), QUALCOMM Inc. (QCOM: -27%), and Fidelity National Information Systems Inc. (FIS: -32%).

The holdings with the lowest contribution to active return in the Portfolio were Verizon Communications Inc. (VZ: -23%, -73 bps), Truist Financial Corp. (TFC: -21%, -61 bps), and Fidelity National Information Services Inc. (FIS: -32%, -54 bps).

As of February 28, the Portfolio held a total of 49 positions. During the period, we established 10 new positions and eliminated 9.

Aviva Investors US Equity Income Fund II (continued)

Outlook

We expect the first half of 2023 will prove to be volatile as monetary policy becomes less predictable and more reactionary to incremental data. We anticipate that this will lead to an explosion of diverging viewpoints about what each data point portends for upcoming policy decisions and how exactly the Fed will, or should, react. In the end, we expect the fed funds rate will be higher in June than it was at the start of the year, but we still believe that the proper question is not how many times, or when, the Fed will raise rates in 2023, but instead what will be the extent of the economic slowdown that this tightening engenders? Fed Chairman Jerome Powell has been firm in his position that policymakers are prepared to push the economy into a shallow recession to bring inflation under control, and we think it prudent to take him at his word. Compounding this uncertainty, as the impact of higher rates slowly takes hold, the probability of financial disruptions (including the recent bank run at SVB) escalate. Lastly, investors appear to have become inured to the immense risks that the war in Ukraine still presents to the global economy, especially if the pace of the conflict reaccelerates in the spring. As we noted in Q3, we cannot know how this event will resolve itself, and it is natural to hope that Vladimir Putin or his replacement will step back and sue for peace, but sadly, this wildcard could continue to ravage lives and linger over markets for much of 2023. We believe a cocktail of forces, namely slowing economic growth, higher interest rates, losses on speculative asset classes, and a systematic decline in trust, will drive outperformance for both value and dividend focused portfolios in the coming years.

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Index disclaimer

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

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