Whitepaper | November 2024

The case for ReturnPlus

A capital efficient enhanced liquidity strategy

Todd Cutting, Rakesh Girdharlal and Alastair Sewell

It takes Aviva Investors

AVIVA INVESTORS

Todd Cutting, CFA
Senior Portfolio Manager, Liability Driven Investment

Main responsibilities

Todd has primary responsibility for the ReturnPlus strategy and insurance Liability Driven Investment (LDI) portfolios, and also develops and implements fixed income investment strategies in low risk relative value opportunities.

As well as portfolio management, he contributes to idea generation and oversees portfolio analysis, monitoring and reporting for the portfolios. Todd also structures derivative hedging strategies across a wide range of portfolios and asset classes.

Rakesh Girdharlal
Head of Liability Driven Investment and Liquidity

Main responsibilities

Rakesh is responsible for Aviva Investors' LDI and liquidity team within our credit function.

Responsibilities include managing LDI portfolios for pension and insurance clients. He also oversees portfolio analysis, structuring and reporting for LDI portfolios.

Alastair Sewell
Liquidity Investment Strategist

Main responsibilities

Alastair is responsible for developing and executing Aviva Investors' liquidity solutions business strategy, covering money market funds through to short duration strategies, including ReturnPlus.

He leads the strategy's external relationships, drives new product launches, produces research and content and represents the strategy to clients.

Contents

Key takeaways

ReturnPlus is a unique offering that can draw on a range of credit spread premia to optimise returns above cash.

The strategy aims to deliver better risk-adjusted returns than cash in a liquid, capital efficient format.

The strategy has a track record of over ten years of robust performance, having been launched as a segregated mandate in 2014. It has outperformed its target since inception, including in periods of market stress.

Introduction

Our ReturnPlus strategy aims to provide stable returns above cash. The strategy is adapted to the needs of investors with strategic cash to invest, or as an alternative to short duration government and credit allocations.

The strategy invests in liquid sovereign and corporate debt; taking modest credit spread risk, while minimising other risks. It hedges interest rate and foreign currency risks and is widely diversified by sector and geography. The strategy accesses a variety of return drivers, allowing it to deliver excess returns across a range of market scenarios.

Our approach benefits from our extensive experience managing assets to meet clients' specific liabilities and risk-based capital requirements. Our investment team has managed Aviva's portfolios to optimise return and capital efficiency since 2014, using derivatives for downside protection and to help access select credit market premia. By drawing on this knowledge and taking advantage of market dislocations we have delivered a strong track record and historically low volatility.

In this whitepaper, we set out what we consider to be the main benefits of the ReturnPlus strategy, namely:

- Stable, excess returns above cash.
- Capital efficiency.
- High levels of liquidity.

> The strategy invests in liquid sovereign and corporate debt; taking modest credit spread risk, while minimising other risks

Key features

Attractive returns	Capital efficiency	High liquidity
Targeting SONIA/ESTR +0.75/+0.50 per cent p.a.[1,2]	• Investing in high quality short-dated debt • Limiting risk factor exposure	Investing in highly liquid instruments

Investor benefit 1: Attractive returns

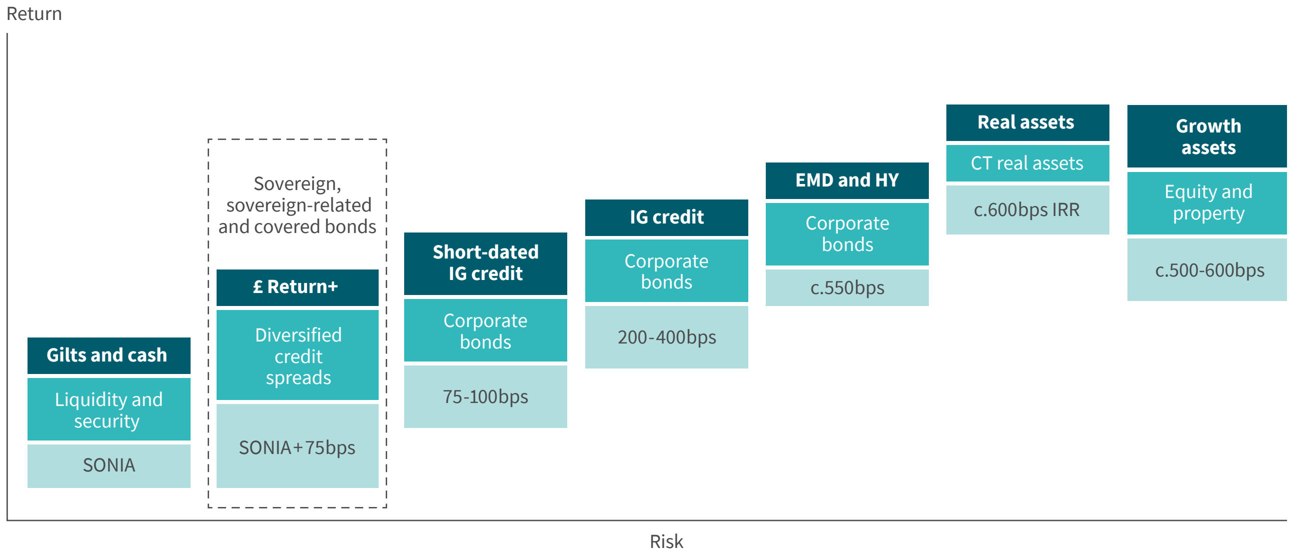
The ReturnPlus strategy can access a wide range of global fixed income markets while hedging the interest rate and currency risks those markets may otherwise introduce.

We seek opportunities that sit between cash and investment-grade (IG) credit. These offer higher returns than cash and money market instruments and provide a diversified source of credit spreads. Our investment universe includes short-dated sovereign, sovereign-linked and covered bonds that tend to be less risky than traditional IG credit (Figure 1).

The strategy offers the potential to achieve higher returns than cash without resorting to simply adding duration in the form of corporate credit. This contributes to the stability of the strategy's returns given the potential credit- and duration-driven volatility in corporate credit markets. The strategy is highly diversified and is not limited to any single currency or geography.

Our investment universe includes short-dated sovereign, sovereign-linked and covered bonds that tend to be less risky than traditional IG credit

Figure 1. **ReturnPlus on the risk/reward continuum**



Note: For illustrative purposes only. Expected return targets may not be achieved due to market conditions and the value of an investment may go up or down.
Source: Aviva Investors, September 2024.

Investor benefit 2: Capital efficiency

ReturnPlus is structured to be capital efficient under risk-based capital (RBC) regimes such as Solvency II in Europe.

The strategy achieves capital efficiency through:

- **Limiting exposure to risk factors:** The strategy isolates risk factors to *credit spread risk* only. It achieves this by hedging non-credit risks such as interest rate risk (the strategy is duration neutral) and foreign currency risk. As a result, the strategy's capital charge is structurally limited to credit spread risk only.
- **Limiting credit risk exposure:** The strategy focuses on high credit quality exposures only – specifically, by investing in A-rated or better entities only. The investible universe is further limited to AA-rated or better for non-government/government-related exposures. The securities typically have low spread capital charges under RBC regimes. Combined with the strategy's short legal final maturity limits (the average maturity is less than five years), spread risk capital requirements are low.

- **Regulatory aware investing:** We tilt the strategy towards assets with low or zero capital charges within the stated rating buckets. In many RBC regimes sovereign bonds, as well as sovereign, supranational and agencies, attract low or zero spread capital charges. This makes them capital-efficient exposures. Under Solvency II, spread capital charges on covered bonds are particularly low, making them a favoured allocation for the strategy from a capital efficiency perspective.

We estimate the Solvency II capital charge for our strategy to be two to three per cent.[3]

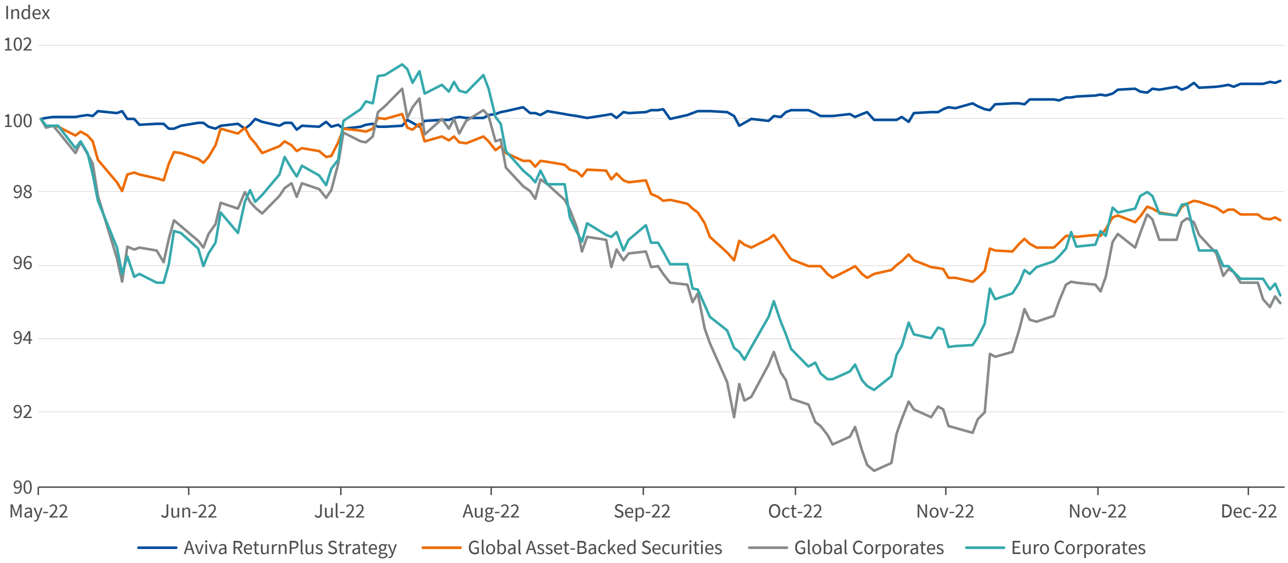
Investor benefit 3: High liquidity

The ReturnPlus strategy has demonstrated resilience across periods of market stress. A case in point is the UK gilt crisis of September 2022, sparked by the UK government's doomed 'mini' budget announced that month. The value of the pound and gilts plunged as investors became concerned about how the proposed growth plan would be funded. Many asset classes routinely used by investors either to enhance yields on cash or as sources of liquidity were negatively affected.

For example, many investors use allocations to short-dated corporate bonds to enhance returns on their liquidity pools. These allocations can be volatile, as demonstrated in Figure 2, which compares the performance of various credit indices to that of the ReturnPlus strategy during the September 2022 market stress period. Thanks to the downside protection offered by ReturnPlus, its performance was resilient throughout the period.

The ReturnPlus strategy has demonstrated resilience across periods of market stress. A case in point is the UK gilt crisis of September 2022

Figure 2. **ReturnPlus strategy's performance versus traditional indices during the gilt crisis in September 2022**



Past performance is not a guide to future performance. Illustration shown net of fees for the Aviva ReturnPlus strategy.

Note: Indexed to 100, data from May 31 to December 31, 2022. Indices used: Aviva ReturnPlus Strategy: Aviva- GBP ReturnPlus-I GBP; Global asset-backed securities: Bloomberg Global Aggregate Asset Backed TR Index Hedged GBP; Global corporates: Bloomberg Global Aggregate Corporate TR Index Hedged GBP; Euro corporates: Bloomberg Euro Aggregate Corporates TR Index Value Hedged GBP.

Source: Aviva Investors, Bloomberg. Data as of September 2024.

Liability driven investment (LDI) funds typically utilise leverage via repurchase agreements (repo) and derivatives. The sharp rise in gilt yields that followed the mini budget announcement resulted in substantial collateral calls against these positions. In normal market conditions, calls can be met by liquidating assets in an orderly way. This was not always possible directly after the mini budget. Even normally liquid bond markets suffered, resulting in spread widening and inflated transaction costs, while some other assets proved illiquid within the required timeframe.

During that period, we were able to liquidate assets on behalf of our clients — all settled in full and on time. Disposals included highly liquid Japanese government bonds, as well as euro denominated and Scandinavian covered bond positions. The strategy's diversification of liquidity sources compared positively against more geographically concentrated (UK-focused) liquidity pools.

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Case studies

How our clients utilise ReturnPlus

Our pension and insurance clients use ReturnPlus in a variety of ways to meet their requirements, as summarised in Figure 3 below.

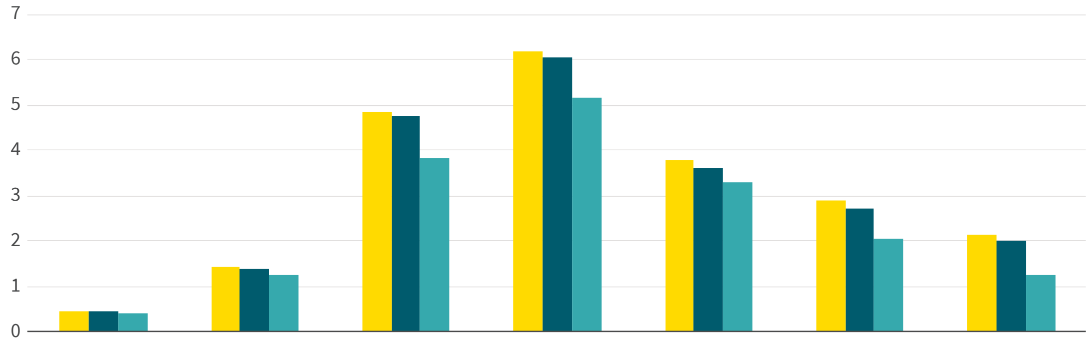
Figure 3. **Examples of how the ReturnPlus strategy is used by clients**

Investor type	Role of strategy	Key characteristics
Insurer A - Treasury centre	Seeking a strategy able to deliver enhanced returns on a strategic cash allocation	Used for holding strategic or "rainy day" cash with a long holding period as well as alongside money market funds (MMFs) for operating and reserve cash requirements.
Insurer B	Enhancing return on capital	Allocation to back non-annuity liabilities. The strategy provides a diversified source of credit spreads and attractive return on Solvency II capital (SII), while interest rate risk is contained through swaps.
Insurer C	Fixed income optimisation	Allocation to diversify core sovereign and investment-grade corporate exposure in the fixed income portfolio, providing diversified sources of credit spread while optimising return on SII capital and improving liquidity.
Pension scheme A	Diversified source of spreads within a cashflow-driven investment (CDI) strategy	A strategic allocation as a diversified source of credit spreads within CDI. Positioned between LDI strategy (including gilts and swaps) and buy-and-maintain investment-grade credit strategy, on the risk/reward spectrum.
Pension scheme B	Re-leveraging LDI	Improving funding levels allowed the pension scheme to de-risk asset allocation and reduce LDI leverage. To improve portfolio returns without taking excessive risk, the LDI portfolio was then re levered, and the proceeds invested in ReturnPlus as the scheme approached its endgame.

Source: Aviva Investors, September 2024.

ReturnPlus performance

Figure 4. **GBP composite performance (per cent)**



	Cumulative (per cent)			Annualised (per cent)			
	1 month	3 month	YTD	1 year	3 years	5 years	Since inception
Gross performance	0.44	1.42	4.84	6.19	3.75	2.87	2.12
Net performance	0.43	1.38	4.73	6.04	3.6	2.72	1.97
SONIA	0.40	1.25	3.83	5.17	3.28	2.04	1.25
Relative to SONIA	**0.04**	**0.17**	**0.97**	**0.97**	**0.46**	**0.81**	**0.86**

Past performance is not a guide to future performance.

Note: Inception date is October 31, 2014. Composite performance is shown gross and net of all fees and fund expenses in GBP (net figures include indicative investment management fees of 15 basis points). Calendar year composite chart and GIPS composite disclaimer can be found in the appendix. Benchmark is SONIA: Sterling Overnight Index Average. GBP I Share Class.

Source: Aviva Investors. Data as of September 30, 2024.

Key fund facts

Fund name:	Aviva Investors ReturnPlus Strategy
Fund managers:	Todd Cutting and Rakesh Girdharlal
Investment objective:	To achieve a 0.75 per cent per annum gross return above the Sterling Overnight Index Average (SONIA) over a 3-year rolling period, regardless of market conditions. To achieve a 0.50 per cent per annum gross return above the Euro Short Term Rate (ESTR) over a 3-year rolling period, regardless of market conditions.
Fund structure:	SICAV-SIF
Currency of fund:	GBP/EUR
Strategy launch date:	August 3, 2020 and March 17, 2020
Share class/currency:	I GBP and I EUR
ISIN code (launch date):	LU1985796611 and LU1985796371
Ongoing Charges Figure:	0.15 per cent
Status under SFDR:	Article 8
Settlement:	T+3

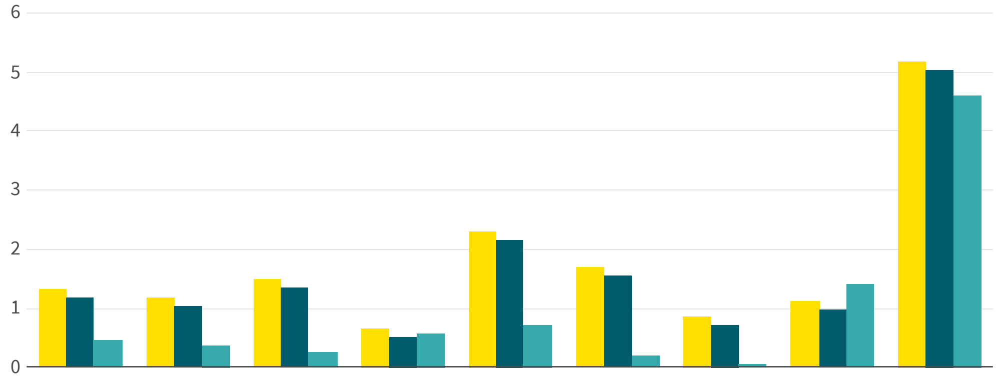
References

1. Sterling Overnight Index Average.
2. Euro Short-Term Rate.
3. Source: Aviva Investors, Aladdin, based on the average for the 12-month period ending in September 2024.

Appendix

Composite performance

Figure 5. **GBP composite calendar year performance (per cent)**



	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return Plus GBP Fund (gross)	1.32	1.17	1.50	0.67	2.31	1.70	0.86	1.12	5.19
Return Plus GBP Fund (net)	1.17	1.02	1.35	0.52	2.16	1.55	0.71	0.97	5.04
Benchmark	0.46	0.36	0.25	0.56	0.71	0.19	0.06	1.40	4.61
Relative (gross)	**0.86**	**0.80**	**1.24**	**0.11**	**1.59**	**1.51**	**0.80**	**-0.27**	**0.56**

Past performance is not a reliable indicator of future returns.

Note: Inception date is October 31, 2014. Composite performance is shown gross and net of all fees and fund expenses in GBP (net figures include indicative investment management fees of 15 basis points). Benchmark is SONIA: Sterling Overnight Index Average. GBP I Share Class.

Source: Aviva Investors. Data as of December 31, 2023.

Composite disclosures

Figure 6. **Composite disclosure for the ReturnPlus strategy**

Period	Composite return (per cent)	Benchmark return (per cent)	Relative return (per cent)	Composite risk (per cent)	Benchmark risk (per cent)	Number of portfolios (throughout period)	Dispersion (per cent)	Market value at end of period (M)	Total firm assets at end of period (M)
1 month	0.40	0.43	-0.03	0.00	0.00	4 (4)	0.00	3,466.4	0.0
3 months	1.29	1.28	0.00	0.00	0.00	4 (4)	0.00	3,466.4	0.0
6 months	2.67	2.56	0.11	0.00	0.00	4 (4)	0.00	3,466.4	0.0
YTD	5.19	4.61	0.56	0.29	0.18	4 (4)	0.00	3,466.4	0.0
1 year	5.19	4.61	0.56	0.29	0.18	4 (4)	0.00	3,466.4	0.0
3 years rolling	7.32	6.13	1.12	0.68	0.57	4 (4)	0.00	3,466.4	0.0
5 years rolling	11.66	7.08	4.27	0.88	0.50	4 (3)	0.00	3,466.4	0.0
Since inception	17.48	8.92	7.86	0.76	0.39	4 (3)	0.00	3,466.4	0.0
3 years ann.	2.38	2.00	0.37	0.68	0.57	4 (4)	0.00	3,466.4	0.0
5 years ann.	2.23	1.38	0.84	0.88	0.50	4 (3)	0.00	3,466.4	0.0
Since inception ann.	1.77	0.94	0.83	0.76	0.39	4 (3)	0.00	3,466.4	0.0
2023	5.19	4.61	0.56	0.29	0.18	4 (4)	0.0	3,466.4	0.0
2022	1.15	1.40	-0.25	0.57	0.27	4 (4)	0.0	3,498.5	185,218.5
2021	0.86	0.06	0.80	0.23	0.01	5 (5)	0.1	4,927.4	224,189.4
2020	1.70	0.19	1.51	1.49	0.07	5 (5)	0.1	5,001.2	217,010.4
2019	2.31	0.71	1.59	0.49	0.01	5 (4)	0.0	4,676.1	206,063.3
2018	0.67	0.56	0.11	0.42	0.04	6 (6)	0.1	4,910.3	197,929.1
2017	1.50	0.25	1.24	0.35	0.03	6 (4)	0.0	3,879.4	204,444.5
2016	1.17	0.36	0.80	0.57	0.03	4 (4)	0.0	3,810.0	208,896.0
2015	1.32	0.46	0.86	0.65	0.00	4 (4)	0.0	2,923.0	172,000.0

Composite disclaimer

This composite is benchmarked against the SONIA. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. Aviva Investors Global Services claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Aviva Investors Global Services has been independently verified for the periods January 1, 1998 through December 31, 2023. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

The firm is defined as Aviva Investors Global Services, which includes all managed assets, excluding direct real estate investments. The firm was redefined as of December 31, when open ended direct real estate assets were removed from the firm. Closed end direct real estate assets had been excluded from the firm as of December 31, 2010. Therefore, direct real estate assets managed by Aviva are not included within the assets under management value. Following the acquisition of Friends Life group by the Aviva Group, the assets managed by Friends Life group, and its investment operations, were integrated into Aviva Investors in 2015. Aviva Investors Global Services AUM increased from £131bn at the end of 2014 to £172bn at the end of 2015. Further to an agreement dated May 26, 2018 between Aviva Investors Global Services Limited and LaSalle Investment Management, Aviva Investor's global indirect real estate investment division was transferred to LaSalle Investment Management with effect from November 6, 2018. Additional details are available upon request. This composite includes funds with an investment objective to achieve a 0.50 per cent per annum gross return above the Secured Overnight Financing Rate (SOFR) over a 3-year rolling period, regardless of market conditions. Mainly by investing in government and corporate fixed income securities rated between AAA and A by Standard & Poor's and Aaa and A2 by Moody's. The Weighted Average Life (WAL) of the Sub-Fund will typically be greater than 2 years.

This composite was created on August 31, 2020. With an inception date of August 31, 2020. The returns are calculated net of non-reclaimable withholding taxes on dividends, interest and capital gains. Reclaimable withholding taxes are recognised on a cash-basis. Net returns are calculated net of actual fees. The fee scale for pooled clients ranges from 0.1 to 1.8 per cent p.a. and for segregated mandates the fee scale starts at 0.5 per cent p.a. All income is taken gross of tax, but net of irrecoverable taxes. Further information is available upon request. The Firm uses derivative instruments for investment purposes as per the prospectus. These derivatives include futures, forward, options and swaps.

A more complete description of the derivatives used can be found in the investment guidelines of each fund within the composite, along with the maximum exposure level allowed for each fund. Dispersion measure, based on an equal weighted calculation (equal weighted ex-post standard deviation), is done when there are more than 5 accounts in the Composite. The vast majority of the composites will not show a dispersion measure. The 3 year annualized volatility measures displayed, if applicable, are calculated using the 3 year annualized ex-post standard deviations. This information is not presented when there are less than 36 monthly observations available. Net-of-fees returns are applied in the calculation of this GIPS Report's Risk Measures. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

A list of composite and limited distribution pooled fund descriptions and a list of broad distribution pooled funds are available upon request. Fees are specific for each portfolios. All asset weighted management fees currently being charged in a composite are calculated for each composite. Fees for non-retail portfolios are negotiable. There may be inconsistencies between the source and timings of the exchange rates used to calculate the returns among the portfolios within this composite and between the composite and the benchmark. The sources of exchanges rates for the funds is as per our Valuation/Pricing principles. The source of the exchange rates of system reporting the composites and benchmarks returns are quoted WM/Reuters Closing Spot Rates (1600hr London). Further information is available on request.

Key risks

Investment risk and currency risk

The value of an investment and any income from it can go down as well as up and can fluctuate in response to changes in currency and exchange rates. Investors may not get back the original amount invested.

Credit and interest rate risk

Bond values are affected by changes in interest rates and the bond issuer's creditworthiness. Bonds that offer the potential for a higher income typically have a greater risk of default.

Illiquid securities risk

Some investments could be hard to value or to sell at a desired time, or at a price considered to be fair (especially in large quantities), and as a result their prices can be volatile.

Important Information

THIS IS A MARKETING COMMUNICATION

The Aviva Investors ReturnPlus range are sub-funds of The Aviva Investors Global SICAV-SIF 'The Fund'.

The Fund is an open-ended investment company organised as a limited liability company (société anonyme) under the laws of the Grand Duchy of Luxembourg and qualifies as a société d'investissement à capital variable – fonds d'investissement spécialisé (SICAV-SIF). The Fund is authorised as a UCI under the Law and qualifies as an alternative investment fund ("AIF") within the meaning of the AIFM Law.

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In relation to each member state of the EEA and the UK (each a "Relevant State") which has implemented the Alternative Investment Fund Managers Directive (Directive (2011/61/EU)) (the "AIFMD") / as AIFMD forms part of local law of the Relevant State, this information may only be distributed and units may only be offered or placed in a Relevant State to the extent that: (1) the Fund is permitted to be marketed to professional investors in the Relevant State in accordance with AIFMD (as implemented into the local law/regulation / as it forms part of local law of the Relevant State); or (2) this information may otherwise be lawfully distributed and the units may otherwise be lawfully offered or placed in that Relevant State (including at the initiative of the investor).

The Prospectus is available in English, together with the Report and Accounts of the SICAV SIF, free of charge from Aviva Investors Luxembourg, 2 rue du Fort Bourbon 1st Floor.L-1249 Luxembourg, Grand Duchy of Luxembourg R.C.S. Luxembourg B25708, Aviva Investors, 80 Fenchurch Street, London, EC3M 4AE . You can also download copies at www.avivainvestors.com.

Where relevant, information on our approach to the sustainability aspects of the fund and the Sustainable Finance disclosure regulation (SFDR) including policies and procedures can be found on the following link: https://www.avivainvestors.com/en-gb/capabilities/sustainable-finance-disclosure-regulation/

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