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Whitepaper

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The case for ReturnPlus

A capital efficient enhanced liquidity strategy

Authors

Todd Cutting, Alexander Ieri
and Alastair Sewell



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.



Alexander Ieri
Portfolio Manager

Main responsibilities

Alex is a portfolio manager within the Liability Driven Investment (LDI) and Global Liquidity team focusing on the Enhanced Liquidity and ReturnPlus portfolios.



Alastair Sewell
Senior Investment Director

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.

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Key takeaways

ReturnPlus is a distinctive offering that aims to 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.

Past performance is not a guide to future returns.

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 potentially 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 (see Figure 6).¹

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

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

We seek to deliver:



¹ Past performance is not a reliable indicator of future results.

² Sterling Overnight Index Average.

³ Euro Short-Term Rate.

⁴ Secured Overnight Financing Rate.

Targets and outcomes are not guaranteed and may not be achieved.

Strategy aim 1

Attractive returns

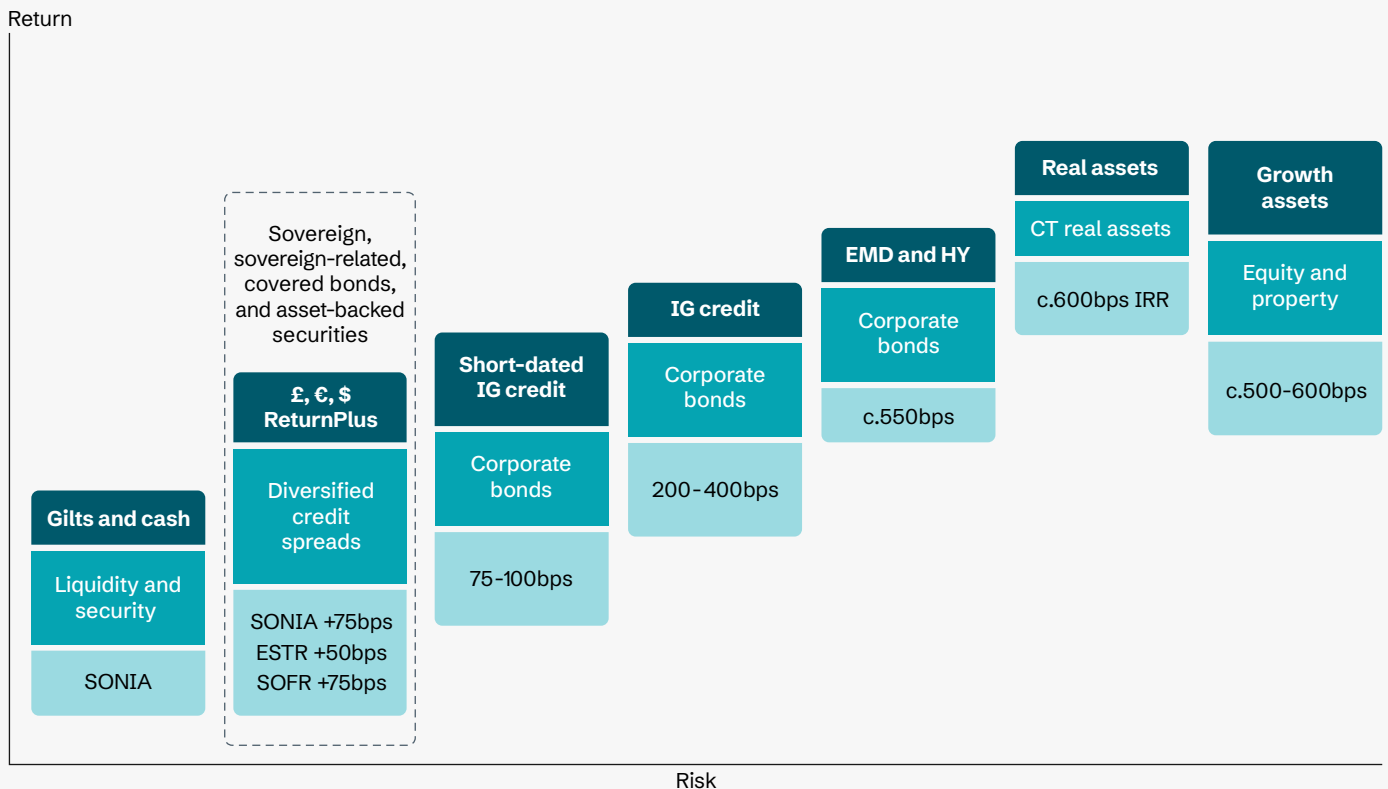
Our investment universe includes short-dated sovereign, sovereign-linked and covered bonds that tend to be less risky than traditional IG credit

The ReturnPlus strategy looks to 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 could 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, covered bonds, and asset-backed securities 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.

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.

Strategy aim 2

Capital efficiency

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

The strategy aims to achieve 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.¹

Strategy aim 3

High liquidity

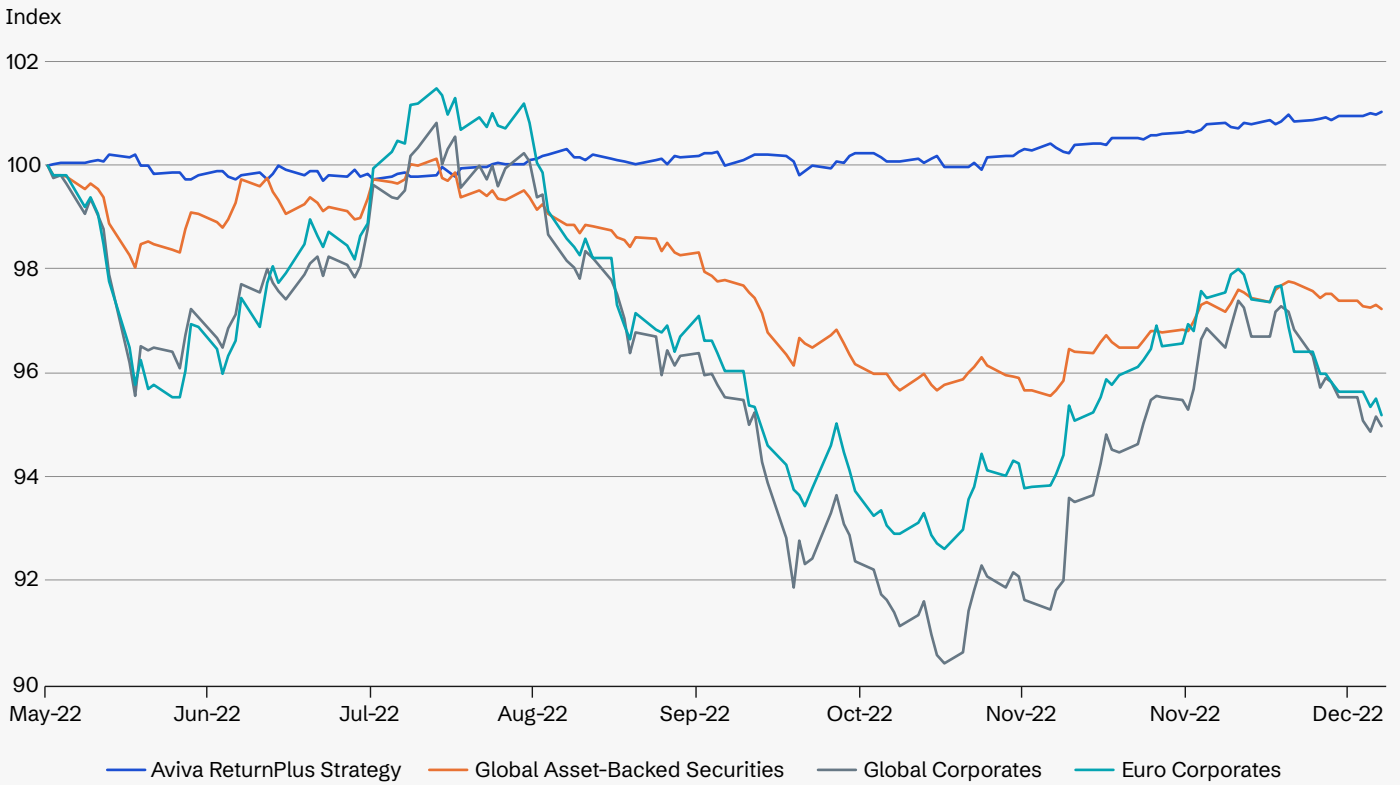
The ReturnPlus strategy has demonstrated resilience across periods of market stress. A case in point is the UK gilt crisis of September 2022

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.

¹ Source: Aviva Investors, Aladdin, based on the average for the 12-month period ending in December 2025.

Figure 2. ReturnPlus strategy's GBP 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; 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

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.

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.

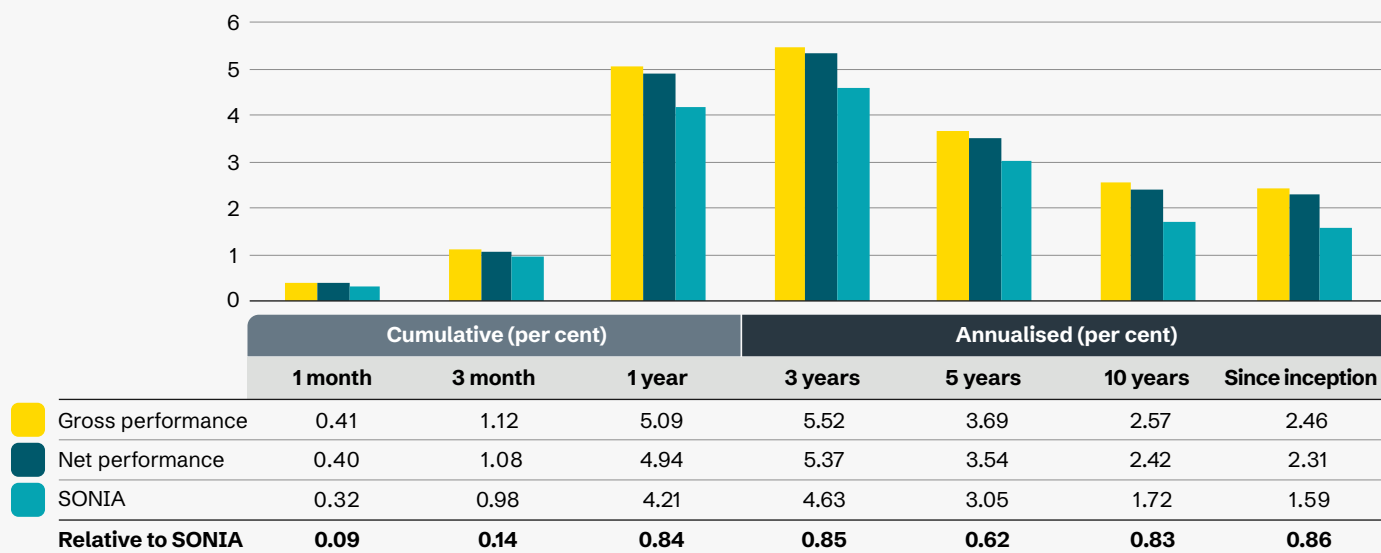
Figure 3. Examples of how the ReturnPlus strategy is used by clients

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)**



Past performance is not a guide to future performance. Please note that returns may increase or decrease as a result of currency fluctuations.

Note: Inception date is October 31, 2014. Composite performance is shown gross and net of all fees and strategy 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.

Source: Aviva Investors. Data as of December 31, 2025.

Key strategy facts

Strategy name	Aviva Investors ReturnPlus Strategy
Portfolio managers:	Todd Cutting, Alexander Ieri
Investment objective:¹	To achieve a 0.75 per cent per annum gross return above the Sterling Overnight Index Average (SONIA) and Secured Overnight Financing Rate (SOFR) 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.
Currency:	GBP/EUR/USD
Strategy launch date:	August 3, 2020; March 17, 2020; July 7, 2025
Ongoing Charges Figure:	0.15 per cent
Status under SFDR:²	Article 8
Settlement:	T+3 (GBP/EUR) and T+2 (USD)

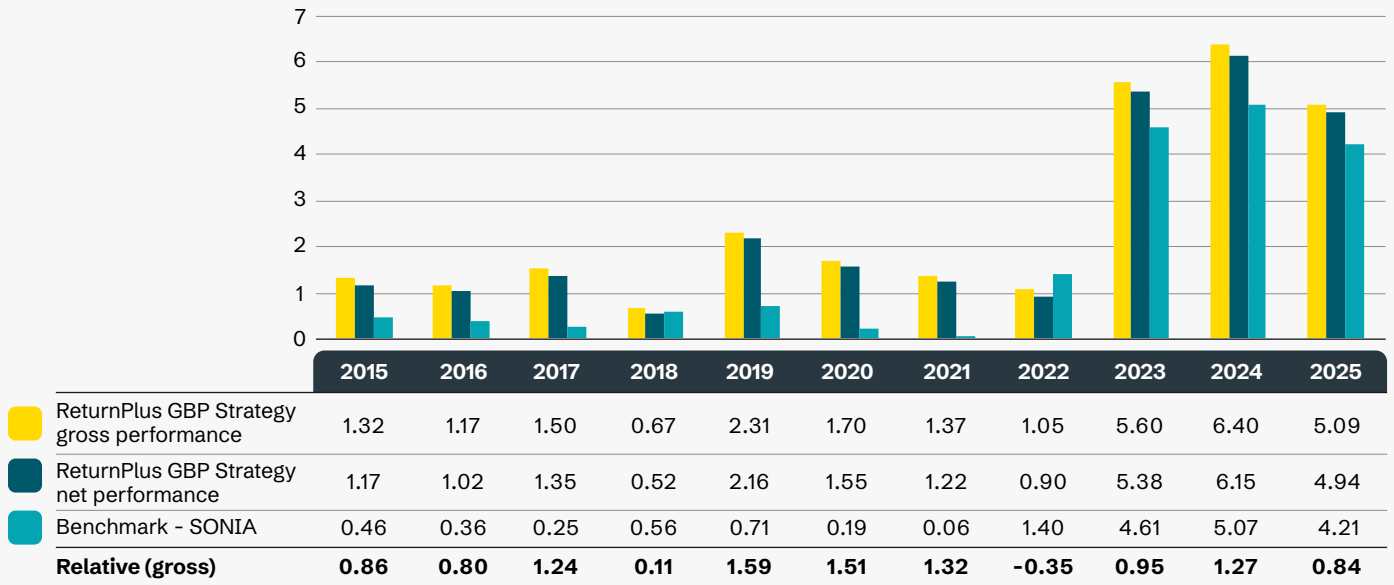
¹**Targets and outcomes are not guaranteed and may not be achieved.**

²This is a voluntary classification under SFDR, not a label or award.

Appendix

Composite performance

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



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 strategy expenses in GBP (net figures include indicative investment management fees of 15 basis points). Benchmark is SONIA: Sterling Overnight Index Average.

Source: Aviva Investors. Data as of December 31, 2025.

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	0.41	0.32	0.09	0.00	0.00	4 (4)	0.00	2,203.0	0.0
3 Months	1.12	0.98	0.14	0.00	0.00	4 (4)	0.00	2,203.0	0.0
6 Months	2.40	2.00	0.40	0.00	0.00	4 (4)	0.00	2,203.0	0.0
YTD	5.09	4.21	0.84	0.26	0.07	4 (4)	0.00	2,203.0	0.0
1 Year	5.09	4.21	0.84	0.26	0.07	4 (4)	0.00	2,203.0	0.0
3 Years rolling	17.49	14.54	2.57	0.34	0.15	4 (4)	0.00	2,203.0	0.0
5 Years rolling	19.86	16.21	3.14	0.73	0.58	4 (4)	0.00	2,203.0	0.0
10 Years rolling	28.91	18.63	8.66	0.83	0.56	4 (3)	0.00	2,203.0	0.0
Since Inception	31.22	19.26	10.03	0.82	0.54	4 (3)	0.00	2,203.0	0.0
3 Years ann.	5.52	4.63	0.85	0.34	0.15	4 (4)	0.00	2,203.0	0.0
5 Years ann.	3.69	3.05	0.62	0.73	0.58	4 (4)	0.00	2,203.0	0.0
10 Years ann.	2.57	1.72	0.83	0.83	0.56	4 (3)	0.00	2,203.0	0.0
Since Inception ann.	2.46	1.59	0.86	0.82	0.54	4 (3)	0.00	2,203.0	0.0
2025	5.09	4.21	0.84	0.26	0.07	4 (4)	0.0	2,203.0	0.0
2024	6.28	5.07	1.16	0.36	0.06	4 (4)	0.0	3,562.2	212,608.0
2023	5.19	4.61	0.56	0.29	0.18	4 (4)	0.0	3,466.4	198,609.8
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

Source: Aviva Investors. Data as of December 31, 2025.

Composite disclaimer

This composite is benchmarked against the Sterling Overnight Index Average (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 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 1 January 1998 through 31 December 2023. The verification reports are available upon request. AIA is the GIPS firm comprised of Aviva Investors Americas LLC and Aviva Investors Canada, Inc. AIA has been independently verified for the periods 1 February 2013 through 31 December 2023.

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, which includes all managed assets, excluding direct real estate investments. The firm was redefined as of 31 December 2013, 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 at 31 December 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 26 May 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 6 November 2018. Additional details are available upon request.

This composite includes funds with an investment objective to achieve a 0.50% 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 31/08/2020. With an inception date of 31/08/2020.

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% p.a. to 1.8% p.a. and for segregated mandates the fee scale starts at 0.5% 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.

Composite disclaimer (continued)

For composite benchmarks the weights are rebalanced monthly.

Dispersion measure, based on an asset-weighted calculation (asset-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 annualised volatility measures displayed, if applicable, are calculated using the 3 year annualised ex-post standard deviations. This information is not presented when there are less than 36 monthly observations available.

Gross 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 exchange 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.

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Key risks



Investment 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

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Where relevant, information on our approach to the sustainability aspects of the strategy 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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