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The Shariah Investment Strategy

What this guide covers

The aim of this guide is to provide information about the Aviva Shariah Investment Strategy. This is a Shariah-compliant default investment solution, meaning that it aims to fulfil the requirements of Shariah Law.

It has also been designed to take members through the retirement savings journey. This means that achieving growth is the main aim of the growth stage and capital preservation is the aim of the final stages of the default solution, whilst observing and adhering to the laws of Islamic Finance.

Shariah Investment Strategy

Executive Summary

Shariah-compliant	The Shariah Investment Strategy aims to provide growth in the 'growth' stage of the default and then to reduce investment risk as members get closer to their retirement. This is achieved in a manner which is compliant with Shariah Law. Please see pages 4 & 5 for more information.
Risk management	Gives members the potential to generate capital growth in the 'growth' stage of the strategy. We then focus on reducing risk and providing stability in the consolidation stage, and therefore the later stages of the retirement journey as members get closer to taking their savings.
Diversification	The Shariah Investment Strategy provides access to a range of asset classes including traditional and alternative assets, spread across both active and passive strategies to provide a smoother journey to retirement.
Universal strategy & drawdown options	There are two target options for members to choose from - the Shariah Universal Strategy and the Shariah Drawdown Strategy. With the Shariah Universal Strategy, members can wait to decide how to take their retirement savings. The Shariah Drawdown Strategy has been designed for members who would like to take an income from their savings and leave the remainder invested.
Governance	The funds in the solution are monitored on an ongoing basis by our inhouse governance team to ensure they continue to perform in line with expectations. The funds which make up the strategy are reviewed annually to ensure compliance with Shariah law.

What is Shariah-compliant investing?

Shariah-compliant investing is a way of investing which is compliant with the requirements of Shariah Law and the principles of Islam. Shariah-compliant investing is therefore often referred to as a faith-based way of investing.

The funds which make up the Aviva Shariah Investment Strategy are from HSBC's well-established range of Shariah funds. An exclusion process is applied at the outset of the investment process which aims to exclude companies and industries from the funds which are not Shariah-compliant, such as those selling tobacco, weapons and alcohol. Such industries are known in Islamic law as **'Haram'** industries. The funds can invest in **'Halal'** industries, such as technology and pharmaceuticals. They are permissible investments according to the laws of Islam.

Islamic Finance also applies other conditions to its investments, including:

- Riba – ban on interest payments or investments with interest element.
- Gharar – ban on uncertainty. Investment or participation in short-selling is prohibited.
- Maisir - ban on speculation and therefore speculative investments.
- Risks and profits are shared among all parties. Shariah-compliant investments provide funding for Islamic societies, and other Shariah-approved charities, all over the world.
- Underlying investments must be tangible and identifiable.

The rigorous screening process means that members invested in the funds in our Shariah-compliant investment strategy can be confident that their savings are invested in line with their beliefs and values.

As with all investments, the value of Shariah-compliant investment funds can go down as well as up and members may get back less than the amout invested.

Shariah Investment Strategy

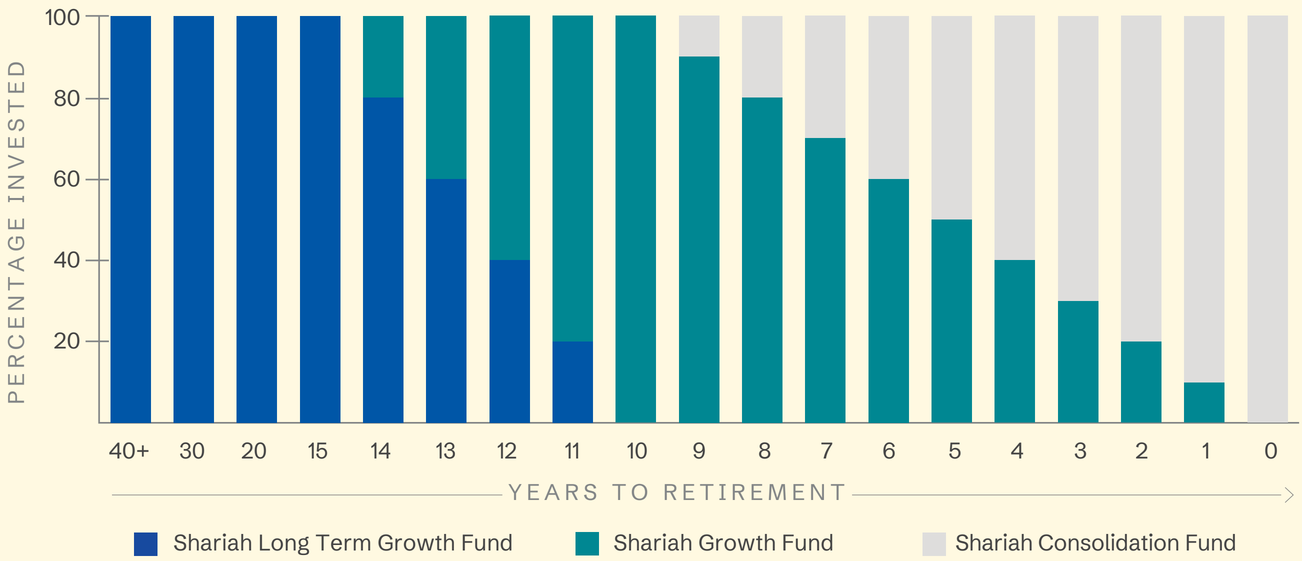
Aviva’s Shariah default investment strategy is Shariah-compliant and therefore meets the demands of Islamic Finance. The solution also recognises that the balance between risk and return will change as members progress through their journey to retirement.

The Aviva Shariah Investment Strategy is a Shariah-compliant default investment solution. This means that it aims to fulfil the requirements of Shariah Law. The solution has been designed to take members through the retirement savings journey. With this in mind, achieving growth is the main aim in the earlier years of the strategy and capital preservation is the aim of the final stages of the solution. To help achieve this, one of the main objectives of the Shariah Investment Strategy is to ensure the relationship between risk and reward is managed as members travel through their retirement journey. For us, this means giving members the best opportunity possible to grow their savings in the earlier stages of their retirement journey by investing in equities. The focus then switches to capital preservation, and the solution holds a bigger position in less risky assets, as members get closer to retirement.

The Shariah ‘Universal’ strategy, (the glidepath of which is shown below), uses several funds, an equity index tracker fund, an actively managed multi-asset fund and a Sukuk bond index tracker fund. Each fund is Shariah-compliant and invests according to Islamic Finance. This means that they aim to avoid certain sectors, including tobacco and alcohol. Please see page 4 for the exclusions which apply to the funds. The member’s journey starts in the Shariah Long Term Growth Fund and from 15 years before retirement members are gradually moved into the Shariah Growth Fund. Starting 10 years before retirement, they slowly migrate to the Shariah Consolidation Fund. We selected a 15-year glidepath following extensive modelling where we put the fund’s asset allocation through different scenarios of investment returns and economic circumstances. It’s designed to achieve an appropriate balance between growth in the value of members’ savings and limit the risk of generating too broad a range of potential outcomes in the value of their savings. We’ll look in detail at the Shariah Long Term Growth, Shariah Growth and Shariah Consolidation Funds on the following pages.

Shariah ‘Universal strategy’

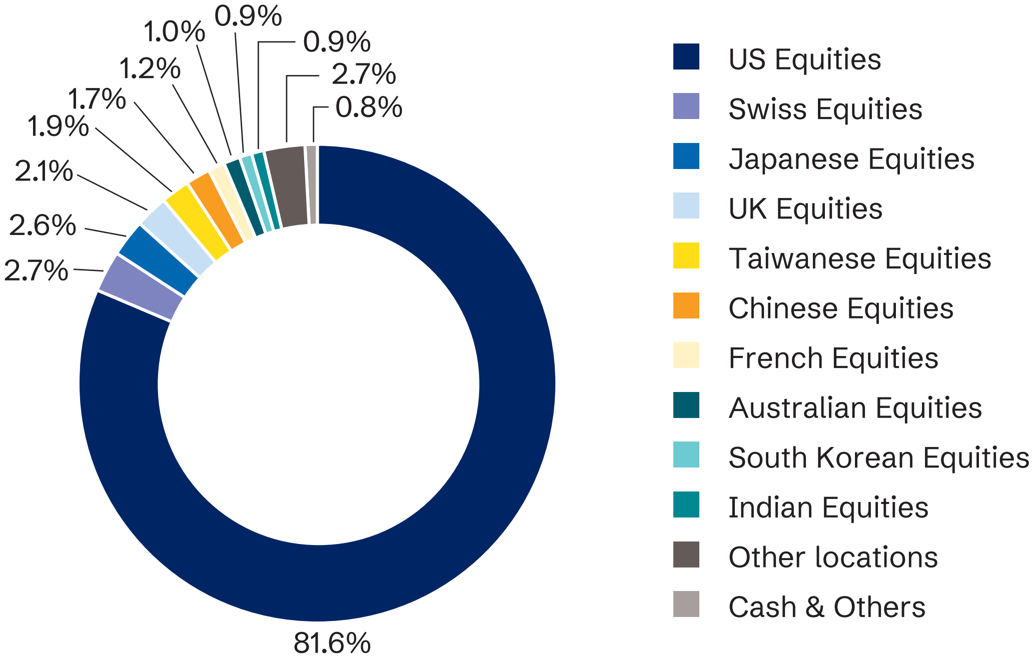
This option has been designed for members who would like to invest in a Shariah-compliant solution, and who haven’t yet decided how they want to use their pension savings and would prefer to keep their options open.



Shariah Long Term Growth Fund

Shariah Long Term Growth Fund is the first stage of the Shariah solution. It's the 'engine room' of the pension savings journey when the focus is on driving long-term growth by investing in a diversified range of equities. As shown in the glidepath on the previous page, members' savings are fully invested in this fund until 15 years before retirement.

Shariah Long Term Growth Fund



Source: HSBC, as at end November 2024.

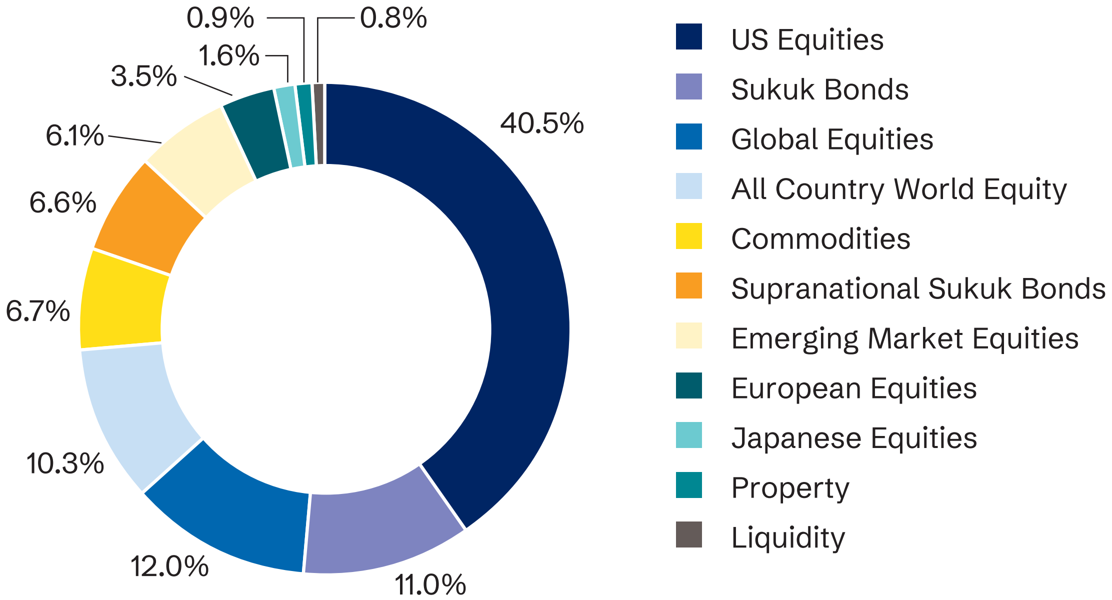
Totals might not add up to 100% exactly due to impact of rounding.
Please note that the amount of money invested in the different holdings in the fund will change slightly from month to month. See fund factsheet for latest asset allocation.

Shariah Growth Fund

The Shariah Growth Fund is the second stage of the Shariah Investment Strategy, taking over from the Shariah Long Term Growth Fund from 15 years until 10 years before retirement. Please see the glidepath on page 5. The fund continues to provide the potential for growth, but with a lower level of risk than the Long Term Growth Fund.

Using a well-balanced mix of growth assets increases diversification and reduces the fund's dependency on equity markets to drive returns. It can also help dampen volatility in times of market stress and provide a smoother journey for members as they get closer to retirement.

Shariah Growth Fund



Source: HSBC, as at end November 2024.

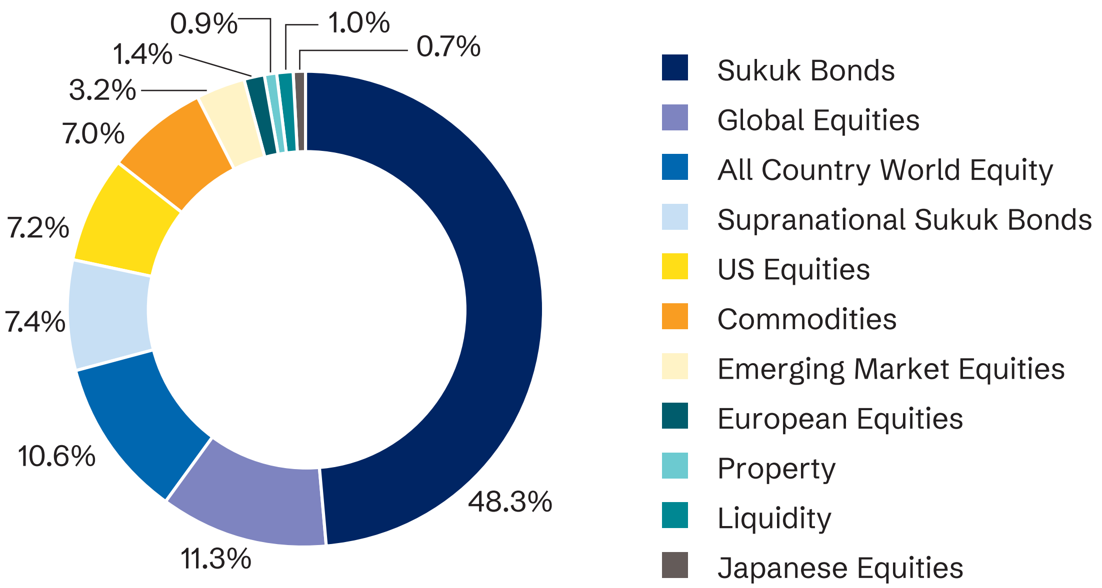
Totals might not add up to 100% exactly due to impact of rounding.
Please note that the amount of money invested in the different holdings in the fund will change slightly from month to month. See fund factsheet for latest asset allocation.

Shariah Consolidation Fund

As shown in the glidepath on page 5, with 10 years to go until retirement, members' pension savings start to gradually move into the Shariah Consolidation Fund until they're solely invested in this fund at their selected retirement date.

The Shariah Consolidation Fund uses a broad range of asset classes which aim to deliver moderate returns, while helping to keep the later stages of the retirement journey as stable as possible for members.

Shariah Consolidation Fund



Source: HSBC, as at end November 2024.

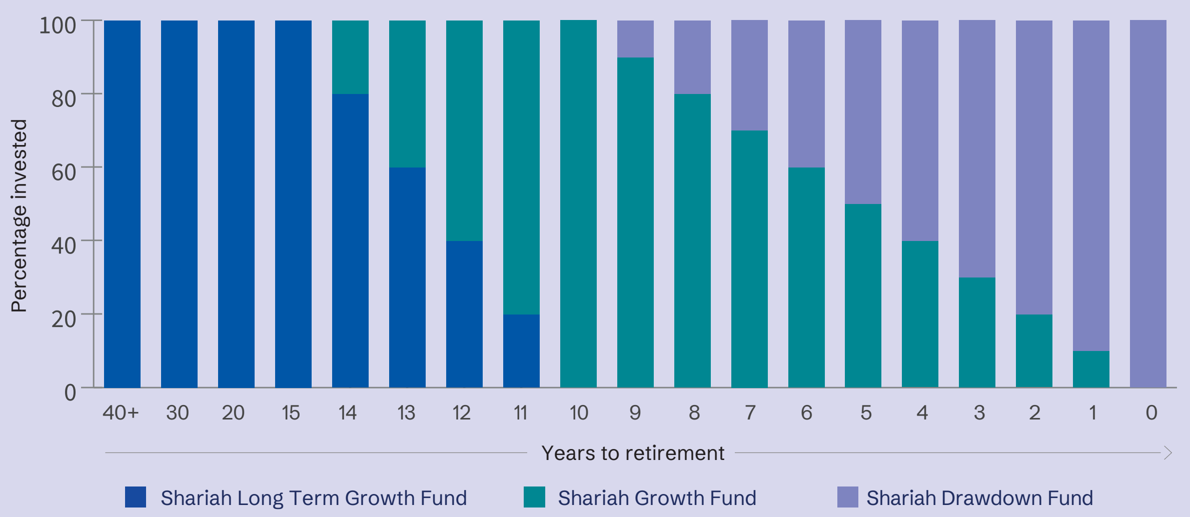
Totals might not add up to 100% exactly due to impact of rounding.
Please note that the amount of money invested in the different holdings in the fund will change slightly from month to month. See fund factsheet for latest asset allocation.

The Shariah Target Drawdown option

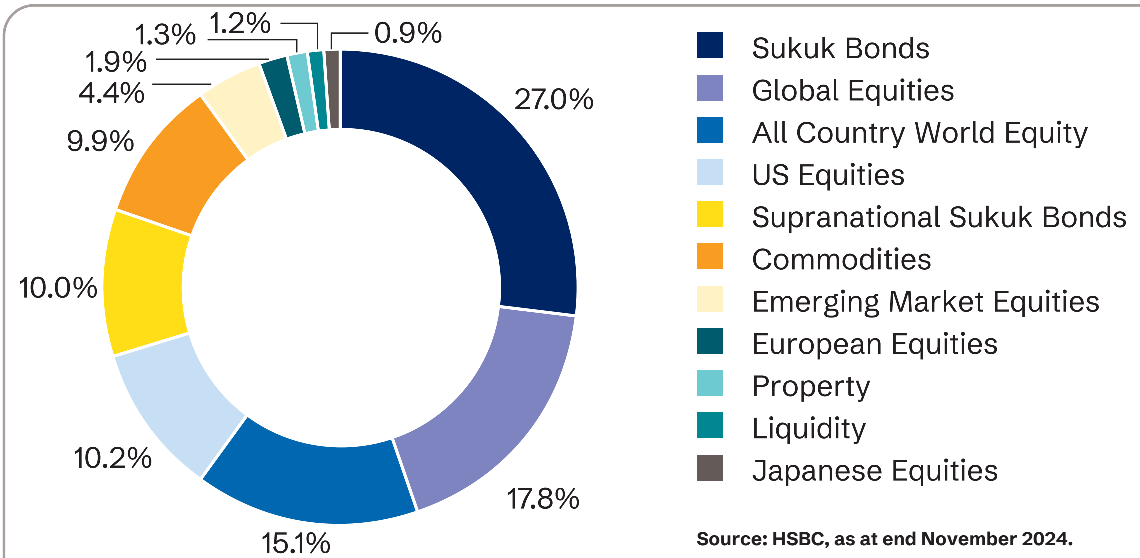
Alongside the default 'Universal' strategy we offer a drawdown target option, which means that members can choose this option as they approach their selected retirement date.

This option has been designed for members who intend to take an income by making withdrawals directly from their pension savings, while remaining invested, by using a drawdown arrangement. Members can currently start doing this from age 55. From 6 April 2028, this will become 57, unless the member has a protected pension age. More details are provided at **aviva.co.uk/nmpa**.

The glidepath for this option is shown below.



The Shariah Drawdown Fund invests both in bonds and company shares, as well as commodities. The chart below shows how much money is invested across the assets in the Shariah Drawdown Fund.



Source: HSBC, as at end November 2024.

Totals might not add up to 100% exactly due to impact of rounding.
Please note that the amount of money invested in the different holdings in the fund will change slightly from month to month. See fund factsheet for latest asset allocation.

Overview of the funds that make up the Shariah Investment Strategy

The Shariah Investment Strategy consists of four funds, namely Shariah Long Term Growth, Shariah Growth, Shariah Consolidation and Shariah Drawdown. With the exception of the Shariah Long Term Growth Fund, the funds are blended funds. The funds invest in HSBC's range of Shariah-compliant funds.

We provide details of the underlying funds below.

The value of investments can go down as well as up and may not be worth the amount paid in.

Risk ratings and risk warnings for each fund can be found on pages 12 - 15.

Fund Name	Fund aim	Benchmark	Weightings
Shariah Long Term Growth	This fund aims to provide long term growth through investment in a diversified portfolio of securities that are compliant with Shariah investment principles. It aims to track as closely as possible the performance of the Dow Jones Islamic Market.	Dow Jones Islamic Market Titans 100 Index	100% HSBC Islamic Global Equity Index
Shariah Growth	This fund aims to provide long term growth through investment in a diversified portfolio of securities that are compliant with Shariah investment principles. The fund's assets may include, but are not limited to, equities, bonds issued by the Islamic Liquidity Management Corporation (ILMC), Sukuk, funds and other transferable securities. The fund may also invest in Shariah-compliant derivatives for investment purposes and/or for efficient portfolio management.	N/A - HSBC Shariah Multi Asset is actively managed and does not track or aim to outperform a benchmark.	Blend: HSBC Islamic Global Equity Index (41%) + HSBC Shariah Multi Asset Fund (59%)
Shariah Drawdown	This fund aims to provide an appropriate balance between growth and risk reduction through exposure to a diversified portfolio of securities that are compliant with Shariah investment principles. The fund's assets may include, but are not limited to, equities, bonds issued by the Islamic Liquidity Management Corporation (ILMC), Sukuk, funds and other transferable securities. The fund may also invest in Shariah-compliant derivatives for investment purposes and/or for efficient portfolio management.	N/A - HSBC Shariah Multi Asset is actively managed and does not track or aim to outperform a benchmark.	Blend: HSBC Sukuk Bond Index (13%) + HSBC Shariah Multi Asset Fund (87%)
Shariah Consolidation	This fund aims to provide growth with a reduced level of risk through exposure to a diversified portfolio of securities that are compliant with Shariah investment principles. The fund's assets may include, but are not limited to, equities, bonds issued by the Islamic Liquidity Management Corporation (ILMC), Sukuk, funds and other transferable securities. The fund may also invest in Shariah-compliant derivatives for investment purposes and/or for efficient portfolio management.	N/A - HSBC Shariah Multi Asset is actively managed and does not track or aim to outperform a benchmark.	Blend: HSBC Sukuk Bond Index (39%) + HSBC Shariah Multi Asset Fund (61%)

Governance of the Shariah Investment Strategy

We closely monitor the Shariah Investment Strategy to make sure that it continues to meet our criteria and member requirements. A thorough review of the asset allocation of the solution is carried out on an annual basis.

Monitoring is broken down as follows:

A dedicated and well-resourced in-house investment governance team

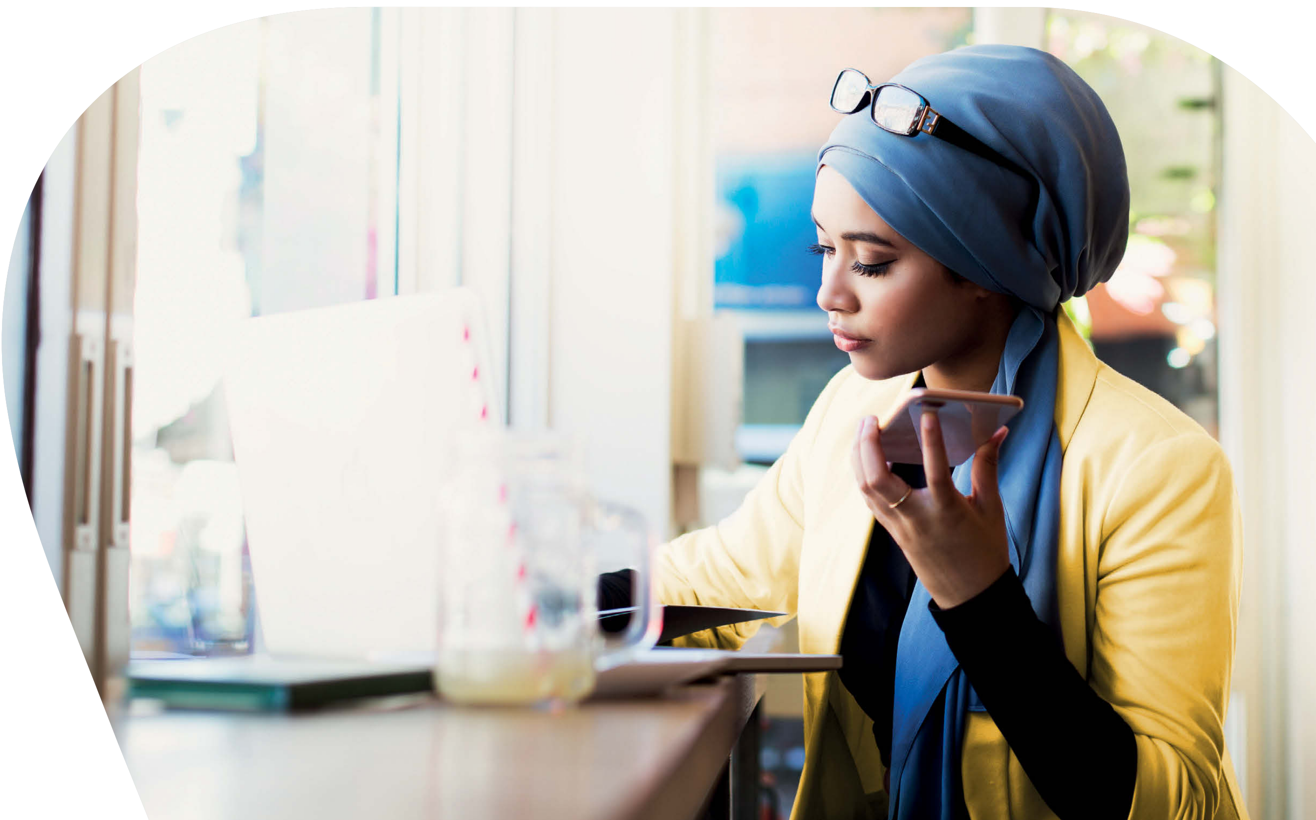
The governance of the funds used in the Shariah Investment Strategy is a responsibility we take seriously. To fulfil our obligations, we've established a rigorous governance framework and process overseen by a dedicated governance team.

Clear accountability

Overall responsibility for the Shariah Investment Strategy falls with the Customer Investment Forum, a committee which is made up of senior people from across the Aviva business. The Customer Investment Forum meets quarterly and is chaired by the UK Life Chief Investment Officer. This role of this committee is to review the solution's investment strategy, performance, and benchmarks, approve any changes to the objectives of the strategy and component funds, and risk controls, ensuring it remains suitable as a default investment solution. The committee also reviews the underlying fund holdings used within the solution.

Compliance of the strategy with Shariah Law

The investment process used for the underlying funds in the Shariah Investment Strategy is reviewed and approved on an ongoing basis by the HSBC Shariah Committee. This committee issues a Shariah certificate annually to certify that the funds are compliant with Islamic Finance.



Fund objectives, risk ratings and warnings

Fund objectives and volatility targets

Explanations of the risk codes can be found on pages 14 & 15.

RISK RATING	FUND NAME, OBJECTIVE & RISK CODES
6	**Shariah Long Term Growth Fund** This fund aims to provide long term growth through investment in a diversified portfolio of securities that are compliant with Shariah investment principles. It aims to track as closely as possible the performance of the Dow Jones Islamic Market Titans 100 Index. **Risk code: A, B, C**
5	**Shariah Growth Fund** This fund aims to provide long term growth through investment in a diversified portfolio of securities that are compliant with Shariah investment principles. The fund's assets may include, but are not limited to, equities, bonds issued by the Islamic Liquidity Management Corporation (ILMC), Sukuk, funds and other transferable securities. The fund may also invest in Shariah-compliant derivatives for investment purposes and/or for efficient portfolio management. **Risk code: A, B, C, E, F**
4	**Shariah Drawdown Fund** This fund aims to provide an appropriate balance between growth and risk reduction through exposure to a diversified portfolio of securities that are compliant with Shariah investment principles. The fund's assets may include, but are not limited to, equities, bonds issued by the Islamic Liquidity Management Corporation (ILMC), Sukuk, funds and other transferable securities. The fund may also invest in Shariah-compliant derivatives for investment purposes and/or for efficient portfolio management. **Risk code: A, B, C, E, F**
3	**Shariah Consolidation Fund** This fund aims to provide growth with a reduced level of risk through exposure to a diversified portfolio of securities that are compliant with Shariah investment principles. The fund's assets may include, but are not limited to, equities, bonds issued by the Islamic Liquidity Management Corporation (ILMC), Sukuk, funds and other transferable securities. The fund may also invest in Shariah-compliant derivatives for investment purposes and/or for efficient portfolio management. **Risk code: A, B, C, E, F**

Helping you to understand risk

The Aviva Investment Governance team allocates risk ratings and fund risk codes for all funds included in the Shariah solution. Please note that not all of the risk codes listed in this guide apply to each fund and there's no direct relationship between the number of risk codes and the risk ratings shown below.

Risk Ratings

Aviva calculates its risk ratings using historical performance data. We also carry out further research using information from the fund's investment manager.

We review each fund's risk rating annually and these may change over time. The timing of investment decisions is very important and investors should consult a financial adviser. Past performance isn't a guarantee of future performance.

Our risk ratings go from 1 to 7, with 1 being the lowest and 7 the highest. As a point of reference, a fund with a risk rating of 4 (medium volatility) would typically experience the volatility you'd expect from a fund invested in a range of different investments (for example shares, property and bonds) without any bias to a particular investment type. Remember that all investment funds carry some element of risk, but this varies from fund to fund.

RISK RATING	VOLATILITY	DESCRIPTION
1	LOWEST	Funds typically investing in **lower-risk sectors, such as the money market**. They usually aim for similar returns to deposit and savings accounts. These funds have the lowest potential for long-term returns, but also see the smallest day-to-day changes in value compared with other funds. They present the lowest risk to your investment, although it could still fall in value.
2	LOW	Funds typically investing in **assets such as the highest-quality corporate bonds**, which normally offer better long-term returns than savings accounts. There's still a risk that the value of your investment could fall.
3	LOW TO MEDIUM	Funds typically investing in **assets like corporate bonds** or a mix of assets where day-to-day changes in value have historically been less than for shares. There's still a risk that the value of your investment could fall.
4	MEDIUM	Funds typically investing in a **mix of asset types** with the potential for better long-term returns than lower-risk funds. Compared with lower-risk funds there's a greater risk that the value of your investment could fall.
5	MEDIUM TO HIGH	Funds typically investing in **shares of companies in the UK or a mix of major stock markets around the world**. These funds offer the potential for good returns over the long term, but their values will go up and down and there's a significant risk that the value of your investment could fall.
6	HIGH	Funds typically investing in high-risk sectors, such as **shares of companies in developed overseas markets**. These funds offer high potential for long-term returns, but also see large day-to-day changes in value, so there's a high risk that the value of your investment could fall.
7	HIGHEST	Funds typically investing in the highest-risk sectors, such as those with **specific investment themes** or the **shares of companies in emerging markets**. These funds offer the highest potential for long-term returns, but also see the largest day-to-day changes in value compared with other funds. This means there's the highest risk that the value of your investment could fall.

Fund risk ratings and warnings

Fund risk warnings

There are risks associated with investing in funds, or types of funds. We recommend you read through these. Please note that not all of these warnings apply to each fund and there's no direct relationship between the number of fund risk warnings and the investment risk rating for each fund.

RISK warning code	Risk warning description
A	**General:** **Investment is not guaranteed:** The value of an investment is not guaranteed and can go down as well as up. You could get back less than you've paid in. **Specialist funds:** Some funds invest only in a specific or limited range of sectors. This will be set out in the fund's aim. These funds may be riskier than funds that invest across a broader range of sectors. **Suspend trading:** Fund managers are often able to stop any trading in their funds in certain circumstances for as long as necessary. When this happens, cashing in or switching your investment in the fund will be delayed. You may not be able to access your money during this period. **Derivatives:** Derivatives are financial contracts whose value is based on the prices of other assets. Most funds can invest partly in derivatives so that the fund can be managed more efficiently or to reduce risk, but there's a risk that the company that issues the derivative may default on its commitments, which could lead to losses. Some funds also use derivatives to increase potential returns – this is known as 'speculation' – and an additional risk warning applies to those funds (see risk F below).
B	**Foreign Exchange Risk:** When a fund invests substantially in overseas assets, its value will go up and down in line with movements in exchange rates as well as the changes in value of the fund's investments.
C	**Emerging Markets:** Where a fund invests substantially in emerging markets, its value is more likely to move up and down by large amounts and more frequently than a fund that invests in developed markets. Emerging markets may not be as strictly regulated, and investments may be harder to buy and sell than in developed markets. Emerging markets may also be politically unstable which can make these funds riskier.
D	**Smaller Companies:** Where a fund invests in substantially the shares of smaller companies, it's more likely to move up and down by large amounts and more frequently than a fund that invests in the shares of larger companies. The shares can also be more difficult to buy and sell, so smaller-companies funds can be riskier.
E	**Fixed Interest:** Where a fund invests substantially in fixed-interest assets, such as corporate or government bonds, changes in interest rates or inflation can contribute to the value of the fund going up or down. For example, if interest rates rise, the fund's value is likely to fall.
F	**Derivatives:** See risk A above. Some funds also invest in derivatives as part of their investment strategy, not just for managing the fund more efficiently. Under certain circumstances, derivatives can cause large movements up or down in the value of the fund, making it riskier compared with funds that only invest in, for example, company shares. There's also a risk that the company that issues the derivative may default on its commitments, which could lead to losses.

RISK warning code	Risk warning description
G	**Cash/Money Market Funds:** These are different to cash deposit accounts, such as those held with high-street banks, and their value can fall. Also, when interest rates are low, the fund's charges could be higher than the return from the investment, so you could get back less than you've paid in.
H	**Property funds:** When a fund invests substantially in property funds, property shares or directly in property, you should bear in mind that: • Property isn't always easy to sell, so at times the fund may not be able to cash-in or switch part or all of its holdings. You may not be able to access your money during this time. • Property valuations are made by independent valuers, but effectively they remain a matter of judgement and opinion. • Property transaction costs are high due to legal costs, valuation costs and stamp duty, all of which affect the value of a fund.
I	**High Yield Bonds: These are issued by companies and governments that have a lower credit rating.** When a fund invests substantially in high yield bonds, there's a higher risk that the bond issuer might not be able to pay interest or return the capital that was invested. The value of these bonds is also more greatly affected by economic conditions and interest rate movements. There may be times when it's not easy to buy or sell these bonds, so cashing-in or switching your investment in the fund may be delayed. You may not be able to access your money during this period.
J	**Reinsured Funds:** Where a fund invests in a fund that's operated by another insurance company, you could lose some or all of the value of your investment in the fund if the other insurance company became insolvent.
K	**Alternative Investment Funds:** The fund invests partly in one or more alternative investment funds, for example Long-Term Asset Funds (LTAFs) or Reserved Alternative Investment Funds (RAIFs). These investments give access to sectors such as infrastructure, venture capital, private equity and private debt investments and they add diversification to the fund, but it can take longer to move money out of them than from many other types of asset. This could mean that in exceptional circumstances cashing-in or switching your investment in the fund may need to be delayed. Some of the underlying holdings may be valued by independent valuers which means they are a matter of judgement and opinion and transaction costs may be high due to legal costs, valuation costs and stamp duty, all of which affect the value of a fund. To reduce these risks, we set strict limits on how much of the fund can be invested in Alternative Investment Funds and monitor this closely.

Get in touch

If you have any questions about any of the information in this brochure, please speak to your usual Aviva contact.

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