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# AVIVA INVESTORS MULTI-STRATEGY TARGET RETURN FUND SICAV

PERFORMANCE AND STRATEGY UPDATE

JUNE REVIEW

### Key points

Trade tensions escalated further in June, as the US imposed tariffs and China retaliated. Asian assets reacted negatively but the US remains strong, with the Fed expected to keep raising rates.

Annualised gross return of 2.20 per cent since inception.

The fund was broadly flat in June. Losses in emerging market equities and debt were largely offset by gains in long US dollar strategies and a short position in UK rates.

### Key fund information

Inception date: 1 July 2014

Fund size: €3,892 million

Fund managers (since):
Peter Fitzgerald (1 July 2014)
Ian Pizer (1 December 2014)
James McAlevey (14 June 2018)

Investment objective:

The fund aims to target a five per cent per annum gross return above the European Central Bank base rate (or equivalent) over a three-year rolling period, regardless of market conditions (absolute return).

Performance shown for share class I (institutional).

Basis: Both net and gross performance numbers calculated on a NAV basis in euros.

Volatility calculated on realised annualised daily basis.

The figures do not include the effect of any entry or exit charge.

## Fund performance broadly flat in June

The Aviva Investors Multi-Strategy (AIMS) Target Return Fund returned -0.03 per cent in June (gross of charges). The fund has delivered an annualised three-year gross return of 0.08 per cent with annualised volatility of 3.70 per cent. This compares with the 10.87 per cent annualised volatility seen from the MSCI AC World (local currency) over the same period.

**Performance (gross and net of the annual ongoing charge)**

| Cumulative performance (%) | | | | | | Annualised performance (%) | |
|---|---|---|---|---|---|---|---|
| | 1m | 3m | 6m | YTD | 1yr | 3yr | Since inception |
| Total return gross | -0.03 | -0.36 | -0.12 | -0.12 | -1.31 | 0.08 | 2.20 |
| Total return net | -0.10 | -0.57 | -0.54 | -0.54 | -2.14 | -0.76 | 1.34 |

Past performance is not a guide to future performance.

Data Source: Aviva Investors/Lipper, a Thomson Reuters company, as at 30 June 2018.

## Fund performance overview and strategy changes

The fund was little changed in June, with underperformance from risk assets such as emerging market equities and debt largely offset by positive performance from short Asian and Australian currency strategies (against the US dollar) and short UK rates. The recent strengthening of the US dollar continued in June, with Asian currencies falling sharply over the month. Indeed, we added to our existing short Taiwan dollar strategy in June with short positions in Korean won and the Singapore dollar. The weakening in Asian currencies was exacerbated by the sharpest weakening in the Chinese renminbi since the managed depreciation in 2015. We closed our long Indian rates strategy in June while adding to Brazilian rates, given a more favourable carry and return profile, as well as adding to our market returns strategy where we are long Japanese Real Estate Investment Trusts (REITs) as described below.

## The month in review: June 2018

### Trade tensions escalate

Global markets were somewhat calmer in June, following the resolution (at least for the time being) of the Italian political situation that gripped markets in May. That said, there remained areas of fragility, with trade tensions rising through the month. That put emerging market assets under increasing strain, with Asian currencies falling particularly sharply over the month. That followed the news that the US would proceed with tariffs of 25 per cent on $34 billion of Chinese goods (mainly intermediate inputs rather than final consumer goods), with a further $16 billion to follow in due course. With China indicating that it would respond with similar tariffs on US goods, the rhetoric from President Trump escalated further, with threats of tariffs on an additional $200-400 billion of Chinese goods should China retaliate. With little sign of a de-escalation during June, those markets in Asia that would be most likely be impacted (either directly or indirectly) by a trade war were hardest hit. Our short positions in Asian currencies, in addition to the Australian dollar, benefited from that market reaction. However, our long position in Indonesian government bonds offset much of those gains.

Looking ahead, we believe trade tensions will continue to impact market sentiment as uncertainty around the outlook increases. While the magnitude of tariffs imposed to date is not large enough to be economically significant, there is clearly a risk of further escalation to the point that it could materially impact business sentiment, financial conditions and ultimately trade flows, economic growth and inflation.

Despite the risks to the outlook from trade policy, the US economy showed further signs of strength in June, with survey and other activity data suggesting strong growth in Q2. Alongside that, employment growth continued to run well ahead of the pace needed to keep the unemployment rate steady, further tightening the labour market. Inflation also picked up further, with headline CPI and PCE rising on the back of stronger core inflation and higher oil prices. Core PCE inflation, the measure favoured by the Federal Reserve, reached 2 per cent in May, the first time it has been at the central bank's target since 2012. The Federal Reserve raised rates in June, as widely expected, and indicated that they were expecting to raise them twice more this year and three times in 2019. Subject to the trade war risk, we expect continued robust growth in the US to support further wage increases and higher inflation. We expect core inflation to move above 2 per cent and remain there through the remainder of 2018. Given that we continue to expect the Fed to deliver on their expected rate hikes, with the risks tilted to more, rather than fewer hikes.

In Europe, the ECB indicated at their June meeting that asset purchases would be scaled down after September and finish at the end of 2018. That was in line with our expectations. However, they also indicated that they expected to keep policy rates unchanged at least through the summer of 2019. Such explicit forward guidance for an extended period of unchanged rates was more dovish than we expected, but ought to be supportive of our position in European inflation. However, the implications for European banks was more negative, as their ability to generate increased profitability was brought into question. That said, valuations in the sector remain compelling.

Prospects for a change in policy from the Bank of Japan this year also look increasingly remote. Inflation has remained stubbornly low and while wage growth has picked up somewhat, it has not been enough to generate higher inflation expectations. A strategy that was added to the portfolio in recent months was long Japanese REITs. This strategy ought to perform well in a low interest rate environment. It has performed well since inception, contributing positively to performance.

Finally, in the UK the Bank of England left interest rates unchanged in June, although the number of dissenters arguing for a rate rise went up from two to three. Much of the debate centres on the extent to which the slowdown in growth in Q1 was temporary or likely to be more persistent. Recent indicators suggest some recovery in growth, although any optimism there may be tempered by concerns about the further delays and Cabinet squabbling over Brexit negotiations. However, we continue to think that long-term rates in the UK are mis-priced, with an overly pessimistic outlook implied by deeply negative real rates.

## Key risks

Past performance is not a guide to future performance.

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 exchange rates. Investors may not get back the original amount invested.

The fund may use derivatives; these can be complex and highly volatile. Derivatives may not perform as expected, which means the fund may suffer significant losses.

Certain assets held in the fund could, by nature, 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 could be very volatile.

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## Fund Facts

| | |
|---|---|
| Fund structure | A Sub fund of Aviva Investors SICAV, a Luxembourg domiciled UCITS fund incorporated as a Société d'Investissement à Capital Variable ("SICAV") |
| Share class and type | Share class A (retail): Accumulation<br>Share class I (institutional): Accumulation<br>Share class M (institutional): Accumulation |
| Currency of fund | EUR |
| Liquidity | Daily pricing |
| Settlement | T+3 |
| ISIN Code | Share class A (EUR): LU1074209328<br>Share class I (EUR): LU1074209757<br>Share class M (EUR): LU1445746305 |
| Lipper ID | Share class A (EUR): 68264354<br>Share class I (EUR): 68264357<br>Share class M (EUR):38379324 |
| Annual ongoing charge[1] | Share class A (EUR): 1.60%<br>Share class I (EUR): 0.84%<br>Share class M (EUR): 0.70% |
| Entry charge[2] | Share class A (EUR): 5% maximum<br>Share class I (EUR): 5% maximum<br>Share class M (EUR): None |
| Minimum initial lump sum investment | Share class A (EUR): None<br>Share class I (EUR): 250,000 EUR or equivalent<br>Share class M (EUR) 25,000,000 EUR or equivalent |

1. *The ongoing charges figure is based on last year's expenses for the year ending December 2016. For share class M, the ongoing charges figure is estimated to reflect a more current indication of expected charges.*
2. *This is the maximum that might be taken out of Shareholders' money; payable to the sales agents and authorised intermediaries. Shareholders may be eligible to pay less than the maximum amounts shown.*

*Note: If you access Aviva Investors funds via a platform then you should speak to them directly about their terms and conditions and the availability of share classes. Investments via a fund platform will be subject to that platform's minimum investment criteria and charging structure.*