

# 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.

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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 Share class I (institutional): Accumulation Share class M (institutional): Accumulation
Currency of fund	EUR
Liquidity	Daily pricing
Settlement	T+3
ISIN Code	Share class A (EUR): LU1074209328 Share class I (EUR): LU1074209757 Share class M (EUR): LU1445746305
Lipper ID	Share class A (EUR): 68264354 Share class I (EUR): 68264357 Share class M (EUR): 38379324
Annual ongoing charge <sup>1</sup>	Share class A (EUR): 1.60% Share class I (EUR): 0.84% Share class M (EUR): 0.70%
Entry charge <sup>2</sup>	Share class A (EUR): 5% maximum Share class I (EUR): 5% maximum Share class M (EUR): None
Minimum initial lump sum investment	Share class A (EUR): None Share class I (EUR): 250,000 EUR or equivalent Share class M (EUR): 25,000,000 EUR or equivalent

- 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.*
- 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.*

### IMPORTANT INFORMATION:

Except where stated as otherwise, the source of all information is Aviva Investors Global Services Limited ("Aviva Investors") as at 30 June 2018. Unless stated otherwise any opinions expressed are those of Aviva Investors. They should not be viewed as indicating any guarantee of return from an investment managed by Aviva Investors nor as advice of any nature.

As the fund may invest outside of the European Union or hold currencies other than euro, any currency exchange rate movement may cause the value of an investment to fall as well as rise

The distribution and offering of shares may be restricted by law in certain jurisdictions. This communication should not be taken as a recommendation or offer by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation. Portfolio holdings are subject to change at any time without notice and information about specific securities should not be construed as a recommendation to buy or sell any securities.

Aviva Investors Multi-Strategy Target Return Fund is a sub-fund of Aviva Investors SICAV, an open-ended investment company incorporated as a Société d'Investissement à Capital Variable in Luxembourg. It is authorised by the Commission de Surveillance du Secteur Financier (CSSF) and qualifies as an Undertaking for Collective Investment in Transferable Securities (UCITS) under Part I of the law of 17 December 2010 relating to undertakings for collective investment. The Management Company is Aviva Investors Luxembourg S.A. Investment Manager is Aviva Investors Global Services Limited, regulated and authorised by the Financial Conduct Authority.

The Prospectus and Key Investor Information Document (KIID), are available, together with the annual and semi-annual reports and financial statements of the SICAV, free of charge from Aviva Investors Luxembourg S.A., 2 rue du Fort Bourbon 1st Floor.L-1249 Luxembourg, Grand Duchy of Luxembourg R.C.S. Luxembourg B25708, from the investment manager, Aviva Investors Global Services Limited on our website at [www.avivainvestors.com](http://www.avivainvestors.com), from our office at St Helens, 1 Undershaft, London, EC3P 3DQ or from the relevant offices below.

The Prospectus is available in English, and German, but the German version of the Prospectus is targeted only to Swiss investors. Where a sub-fund of the SICAV is registered for public distribution in a jurisdiction, a KIID in the official language of that jurisdiction will be available. The Prospectus, the KIIDs, the Articles of Incorporation as well as the Annual and Semi-Annual Reports are available free of charge in Austria from the Raiffeisen Bank International AG, Am Stadtpark 9, 1030 Vienna which is the appointed paying agent within the meaning of § 34 InvFG and in Switzerland, from the Representative and Paying Agent BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. In Spain, copies of the Prospectus and KIID together with the Report and Accounts are available free of charge from the offices of distributors in Spain. The SICAV is authorised by the CNMV with registration number 7. In Switzerland, this document is issued by Aviva Investors Schweiz GmbH, authorised by FINMA as a distributor of collective investment schemes. The representative and paying agent of the SICAV in Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland ("BNP"). Copies of the Articles of Association, the prospectus, the KIID, and the annual and semi-annual reports of the SICAV may be obtained free of charge from BNP. Full terms and conditions of Aviva Investors products and services are available on request.

RA18/0714/01092018