

Aviva Investors Sterling Government Liquidity Fund

Quarterly review for the three months to 30 June 2024



REPRESENTATIVE SHARE CLASS
IE00BMG74T54

SHARE CLASS INCEPTION DATE
15/09/2020

FUND SIZE
GBP 5330.26m

Fund overview

Objective: The investment objective of the Fund is to offer returns in line with money market rates and to preserve the value of the investment. The performance of the Sub-fund is measured against the Sterling Overnight Index Average (SONIA) Rate (the benchmark). The Aviva Investors Sterling Government Liquidity Fund is a Short-Term Low-Volatility Net Asset Value (LVNAV) Money Market Fund.

Summary

Fund managers

Richard Hallett since 12/2008
Josh Bramwell since 12/2021

Performance benchmark

**Sterling Overnight Index Average
(SONIA) Rate**

What happened in the market

Sterling money market yields in the second quarter reflected the prospect of the Bank of England cutting interest rates in 2024 in reaction to falling inflation and weak economic growth.

Performance

We switched focus from T-Bills to repos as the T-Bills became more expensive on the expectation of rate cuts in the second half of 2024. The cost of carry of investing longer down the curve became too great as the repo market cheapened on the back of an increase in bank cash requirements.

Looking ahead

We see fair pricing at around 60-65 basis points of policy easing for this year. Repo still offers good value, although we are looking to extend duration to keep yields higher for longer.

What happened in the market

Sterling money market yields in the second quarter reflected the prospect of the Bank of England (BoE) cutting interest rates in 2024 in reaction to falling inflation and weak economic growth. However, there was a degree of volatility in the yield curve given changing expectations of the timing and pace of the easing. By the end of June, with inflation having fallen back to the BoE's 2% target according to data for May, investors were pricing in a possible two rate cuts in 2024, with the first arriving in August. The economic backdrop was broadly encouraging as the UK emerged from a shallow recession in the second half of 2023. There were also signs that the UK employment market was starting to soften in response to the higher interest rate environment. A general election to take place on 4 July was called at the end of May. Although the governing Conservatives were expected to suffer a heavy defeat at the hands of Labour, the market expected no fundamental changes in economic and fiscal policy under the new government.

Calendar year returns

	2019	2020	2021	2022	2023
Fund gross	0.74%	0.20%	0.03%	1.29%	4.68%
Fund net	0.74%	0.20%	0.03%	1.29%	4.68%
Benchmark	0.56%	0.05%	0.02%	1.42%	4.79%

Warning: Past performance is not a guide to future performance.

Performance basis: Mid to mid, in the share class currency, net of tax payable by the Fund with income reinvested. Net figures are net of ongoing charges and fees. Net and Gross performance does not include the effect of any exit or entry charge. For further information on Sustainability Risk please refer to the Sustainable Finance Disclosure section

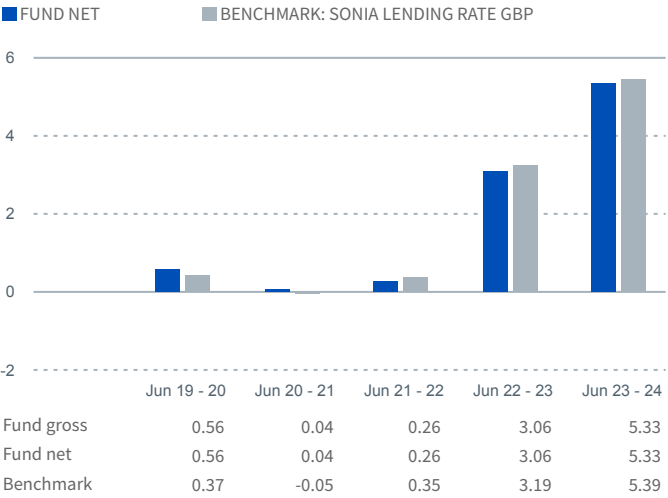
In the fund, we switched focus from T-Bills to repos as the T-Bills became more expensive on the expectation of rate cuts in the second half of 2024. The cost of carry of investing longer down the curve became too great as the repo market cheapened on the back of an increase in bank cash requirements. The BoE repo facility is being increasingly utilised as the central bank removes liquidity from the system via quantitative tightening, which is underpinning the rates achieved on reverse repo.

Looking ahead

Overall, the outlook for money market investments has improved. The UK consumer picture has stabilised alongside that of inflation. Inward flows of assets into the money market have also helped from a technical perspective. For the fund's assets, repo levels remain well supported, driven by the reduced amount of liquidity in the system. The BoE's repo facility has seen increased usage by banks as quantitative tightening drains liquidity from the system. With evidence building that tighter policy has held back economic activity and loosened the labour market, it appears likely that the BoE will start to cut interest rates by the end of the year. The question that money market investors will now be asking is how rapid the policy loosening cycle will be. As at the end of June, the market was pricing 45 basis points of interest rate cuts in 2024 and another 35 basis points between January and May 2025. We think this is at the somewhat lower end of easing, seeing two rate cuts for this year (mainly due to absence of consumer demand) with a risk of a third. Therefore, we see fair pricing at around 60-65 basis points of policy easing for this year. Repo still offers good value, although we are looking to extend duration to keep yields higher for longer.

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Rolling annual net performance (%)



Warning: Past performance is not a guide to future performance.

Basis of performance is described on page 1.

Performance

	Cumulative (%)				Annualised (%)			
	1M	3M	6M	YTD	1Y	3Y	5Y	Since Inception
Fund gross	0.40	1.30	2.62	2.62	5.33	2.86	1.83	-
Fund net	0.40	1.30	2.62	2.62	5.33	2.86	1.83	0.87
Benchmark	0.43	1.32	2.66	2.66	5.39	2.96	1.83	0.89

Sustainable Finance Disclosure

Sustainability Risk indicators are considered alongside a range of financial and non-financial research, with no specific limits imposed, therefore the Investment Manager retains discretion over which investments are selected. Where practicable, the Investment Manager also seeks to apply the Baseline ESG Exclusions when selecting investments.

This product does not have a sustainable investment objective and the investment manager will consider the adverse impacts of an investment to the extent they are financially material. *For further information please refer to the prospectus and our website.*

Fund risks

Warning - Investment Risk & Currency Risk
The value of investments and the income from them will change over time. The Fund price may fall as well as rise and as a result you may not get back the original amount you invested.

Warning - Money Market Securities Risk
The Fund invests in money market instruments such as short term bank debt, the market prices/value of which can rise as well as fall on a daily basis. Their values are affected by changes in interest rates, inflation and any decline in creditworthiness of the issuer.

This is not a guaranteed investment, an investment in a Money Market Fund is different from an investment in deposits and can fluctuate in price meaning you may not get back the original amount you invested. This investment does not rely on external support for guaranteeing liquidity or stabilising the NAV per unit or share. The risk of loss of the principal is to be borne by the investor.

Warning - Sustainability Risk
The level of sustainability risk may fluctuate depending on which investment opportunities the Investment Manager identifies. This means that the fund is exposed to Sustainability Risk which may impact the value of investments over the long term.

Full information on risks applicable to the Fund are in the Prospectus and the Key Investor Information Document (KIID).

Important information

THIS IS A MARKETING COMMUNICATION

The source for all performance, portfolio and fund breakdown data is Morningstar unless indicated otherwise. For share classes that have not yet completed 5 years, the cumulative performance chart will start from the first full month. All data is as at the date of the Factsheet, unless indicated otherwise.

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For further information please read the latest Key Investor Information Document and Supplementary Information Document. The Prospectus and the annual and interim reports are also available on request. Copies in English can be obtained, free of charge from Aviva Investors Luxembourg S.A., 2 rue du Fort Bourbon, L-1249 Luxembourg or from J.P. Morgan Administration Services (Ireland) Limited. 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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