

Aviva Investors Sterling Government Liquidity Fund

Quarterly review for the three months to 31 October 2020



REPRESENTATIVE SHARE CLASS
IE00B3KK3Z64

SHARE CLASS INCEPTION DATE
18/12/2008

FUND SIZE
GBP 5921.20m

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 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 07/2018

Performance benchmark

Not benchmarked

What happened in the market

The sterling money market yield curve flattened as a surge of central bank sponsored liquidity chased too few available assets.

How the fund performed

The fund's yield reflected historically low UK interest rates. Exposure was focused on shorter maturities as little value was to be found in moving along the yield curve.

Looking ahead

Money market yields are likely to remain depressed for some time to come. However, the prospect of further drops in yield have lessened as Covid vaccine rollouts should mean no further cuts in UK interest rates.

What happened in the market

The many billions of pounds that have been pumped into the financial system via the various Bank of England (BoE) liquidity initiatives has meant that there is a mass of cash chasing fewer assets. This has resulted in the sterling money market yield curve, along with all other major currencies, maintaining a flattening trend in the fourth quarter. The three-month interbank lending rate (LIBOR) ended the year at 0.03%, having started it at 0.80%.

The market was once again dominated by the Covid-19 pandemic and the fiscal and monetary policy reaction to it. In early November, risk appetite surged on the announcement by US drug giant Pfizer that its Covid-19 vaccine had proved 90% effective in trials. The result of the US elections, which saw the expected Joe Biden victory but not sweeping gains for the Democrats also boosted sentiment. Thereafter, however, confidence faltered in response to a brisk acceleration of Covid-19 cases around the world. This led to the re-imposition of social restrictions in a number of developed countries. In the UK, chancellor Rishi Sunak responded with an extension of the furlough job-protection scheme to the end of March while the Bank of England raised the asset purchasing target of its quantitative easing programme by a further £150 billion. The bank nevertheless kept interest rates on hold at 0.1%.

The end of the quarter saw the final resolution of the Brexit saga as a free trade deal was signed between the EU and the UK.

How the fund performed

	Cumulative (%)					Annualised (%)		
	1M	3M	6M	YTD	1Y	3Y	5Y	Since Inception
Fund gross	0.00	0.02	0.04	0.23	0.23	0.51	0.42	0.45
Fund net	-	-	-	-	-	-	-	-

Past performance is not a guide to future performance.

Performance shown is for the representative share class, for details of other share classes please refer to the specific factsheet. 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.

We held a long duration position the fund until the beginning of December, when the market collapsed. From that point, we kept duration generally short as there was little reward to adding exposure further along the yield curve. Activity was restricted to adding some Treasury bill and reverse repurchase agreement exposure.

We succeeded in minimising the cash held on the fund at year end, thereby not compromising performance as we entered the new year.

Looking ahead

In line with the other main central banks, the BoE has provided the clear message that the present ultra-stimulative stances being adopted would continue for the foreseeable future and that it stood ready to provide additional monetary policy support if necessary. In the statement accompanying its December meeting, it said that it "does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably". Further loosening in the form of negative interest rates also looks less likely in the short term as the agreement of a free-trade agreement with the EU has removed a considerable amount of the uncertainty hanging over the economy. Overall, the BoE seems to be looking beyond the third UK lockdown to a recovery based on the roll-out of vaccines.

Given the likelihood of monetary policy remaining loose, we will maintain our focus on keeping long duration in the fund. While money market rates are likely to remain historically low for some time to come, we believe that downward pressures on the market will wane unless we see a further round of quantitative easing.

As we begin the new year, we are increasing exposure to reverse repurchase agreements as rates have returned to the level seen in November.

Aviva Investors Sterling Government Liquidity Fund Quarterly review October 2020

Fund risks

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.

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.

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

Rolling annual net performance (%)

Data will be shown once the share class has 12 months performance at quarter end.

Past performance is not a guide to future performance.

Basis of performance is described on page 1.

Calendar year returns

	2016	2017	2018	2019	2020
Fund gross	0.38%	0.19%	0.56%	0.74%	0.23%
Fund net	-	-	-	-	-

Important information

Gross performance is provided by Aviva Investors. The source for all other performance, portfolio and fund breakdown data is Morningstar unless indicated otherwise. All data is as at the date of the Factsheet, unless indicated otherwise.

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 personalised advice of any nature. This document 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.

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

Issued by Aviva Investors Luxembourg S.A. Registered Office: 2 rue du Fort Bourbon, 1st Floor, 1249 Luxembourg. Supervised by Commission de Surveillance du Secteur Financier. An Aviva company.