

Aviva Investors Strategic Bond Fund

Quarterly review for the three months to 31 March 2024



REPRESENTATIVE SHARE CLASS
GB00B3CGG643

SHARE CLASS INCEPTION DATE
22/09/2008

FUND SIZE
GBP 198.56m

Fund overview

Objective: To grow your investment through a combination of income and capital returns, whilst aiming to provide a net return greater than that of the benchmark over the long term (5 years or more) (after charges and taxes). The benchmark (the "Index") is a composite index, as detailed in our prospectus.

The fund's benchmark was introduced on the 7th August 2019 and is tracked since inception.

Summary

Fund managers

Chris Higham since 09/2008
James Vokins since 06/2016

Performance benchmark

Composite Index

What happened in the market

Fixed income markets were held back by fading hopes of early cuts in interest rates by the main central banks. Corporate bonds were nevertheless supported by tighter spreads amid robust risk appetite.

Performance

The fund performed well in relative terms. The most value was added by security selection, most notably in banking. The other leading contributor was quality allocation, with the overweighting of sterling BB and BBB rated bonds being particularly profitable.

Looking ahead

We are moderately positive on the outlook for corporate bonds. Despite relatively heavy new issuance and rich valuations, we note ongoing strong investor demand as all-in yields remain attractive.

What happened in the market

It was a mixed quarter for bond markets. Sovereign bonds posted losses as the euphoria of hoped-for concerted interest rate cuts by the US Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) faded somewhat. While policymakers indicated that rate cuts were likely to remain in scope for 2024, the starting point for easing was pushed back to the middle of the year. In the US, the Fed's caution was largely in response to stronger-than-expected inflation data as the economy continued to beat forecasts. For the ECB and the BoE, while rhetoric became markedly less hawkish amid encouraging progress in the battle against inflation, policymakers were keen to caution against complacency. Positive corporate bond performance nevertheless offset some of the sovereign bond weakness. Yield spreads narrowed amid continued strong economic data in the US and signs of a gradual pick-up in activity elsewhere. The investment-grade market was also supported by favourable technical factors, with strong demand seen from investors who were keen to lock in higher yields while they were still available. High-yield bonds enjoyed a positive quarter overall as risk appetite was buoyed by growing signs that the US economy would avoid recession and achieve a so-called 'soft landing'.

Calendar year returns

	2019	2020	2021	2022	2023
Fund gross	9.24%	7.97%	1.98%	-11.16%	8.16%
Fund net	8.29%	7.02%	1.09%	-11.94%	7.21%
Benchmark	9.29%	5.77%	0.59%	-13.08%	8.60%
	2014	2015	2016	2017	2018
Fund gross	8.00%	2.90%	7.92%	4.18%	-3.57%
Fund net	6.02%	1.02%	6.00%	2.91%	-4.41%
Benchmark	6.42%	-0.36%	8.07%	4.04%	-1.78%

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. The Fund's performance is compared against the one third Bloomberg Treasury G7 Index (GBP hedged), one third Bloomberg Global Aggregate Corporate Index (GBP hedged), and one third Bloomberg Global High Yield Index ex CMBS ex EMG 2% issuer capped (GBP hedged).

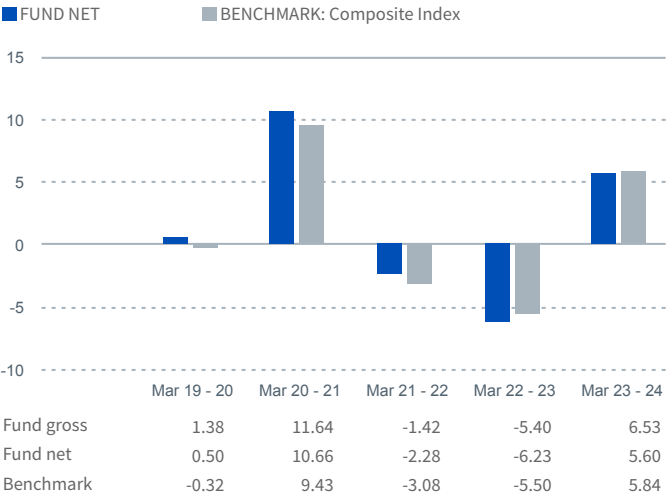
Over the quarter, the fund performed well in relative terms. The most value was added by security selection, most notably in banking. The other leading contributor was quality allocation, with the overweighting of sterling BB and BBB rated bonds being particularly profitable. Positioning on the yield curve and regional allocation also added to performance against the benchmark. The leading issuers at the individual security level were pub operator Greene King and Paramount Global.

Looking ahead

As we enter the second quarter of the year, there is an interesting interaction of two themes: the ongoing lagged effect of monetary tightening versus the continued strength of the US economy, which has been buoyed by the positive impulse from easier financial conditions and rising real wages. This brings with it uncertainty on inflation which could lead to more sovereign bond volatility. Overall, we believe the backdrop for bonds is positive given the income now available and a monetary easing cycle ahead. That said, the major markets are pricing in too many cuts with the economic "soft landing" now discounted to some degree. The extent of further easing will be determined not by the need for policy to be made less restrictive but by how much policy will need to be accommodative in the face of a weaker growth outlook. Regarding corporate bonds, we are moderately positive on the outlook. Despite relatively heavy new issuance and rich valuations, we note ongoing strong investor demand as all-in yields remain attractive. Solid yields also support high-yield bonds, although investor demand is slowing and we are starting to see some sharply negative price action for some issuers. For emerging market debt, softer global financial conditions create an easier funding backdrop for issuers. Moreover, the fact that inflation is under control across many emerging countries should also permit long interest rate cutting cycles to take root and help unlock the latent value in the market.

Aviva Investors Strategic Bond Fund Quarterly review March 2024

Rolling annual net performance (%)



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	5Y	10Y	Since Inception
Fund gross	1.09	0.70	6.71	0.70	6.53	2.37	3.12	6.65
Fund net	1.02	0.47	6.24	0.47	5.60	1.48	1.92	5.06
Benchmark	0.99	0.37	6.78	0.37	5.84	1.12	2.32	4.34

Fund targets

The Index has been selected as a benchmark for performance measurement because it is representative of the type of bonds in which the Fund is likely to invest, and it is therefore an appropriate measure for the Fund's performance.

Fund risks

Investment Risk & Currency Risk

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.

Convertible Securities Risk

Convertible bonds can earn less income than comparable debt securities and less growth than comparable equity securities, and carry a high level of risk.

Credit Risk

Bond values are affected by changes in interest rates and the bond issuer's creditworthiness. Bonds that offer the potential for a higher income typically have a greater risk of default.

Derivatives Risk

The Fund uses derivatives, these can be complex and highly volatile. Derivatives may not perform as expected meaning the Fund may suffer significant losses.

Illiquid Securities Risk

Certain assets held in the Fund could 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.

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. 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, PO Box 10410, Chelmsford CM99 2AY. You can also download copies at www.avivainvestors.com

Issued by Aviva Investors UK Fund Services Limited, the Authorised Fund Manager. Registered in England No. 1973412. Authorised and regulated by the Financial Conduct Authority. Firm Reference No. 119310. Registered address: 80 Fenchurch Street, London, EC3M 4AE. An Aviva company.

Bloomberg® and one third Bloomberg Treasury G7 Index, one third Bloomberg Global Aggregate Corporate Index, and one third Bloomberg Global High Yield Index ex CMBS ex EMG 2% issuer capped Index (the "Benchmark" or the "Index") are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Aviva Investors. Bloomberg is not affiliated with Aviva Investors and Bloomberg does not approve, endorse, review, or recommend the, Aviva Investors Strategic Bond Fund. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to Aviva Investors Strategic Bond Fund.

All performance figures shown are up to the latest month end unless otherwise stated and are on a total return basis. Up to 05 April 2017, the figures include income reinvested after deducting basic rate income tax. From 06 April 2017, income is reinvested without deducting this tax. This will impact fund performance figures post 06 April 2017.