AIMS FIXED INCOME

VIDEO - TRANSCRIPT

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AVIVA INVESTORS

JAMES MCALEVEY:

So when we look at the fixed income markets today we generally believe that investors are faced with three distinct challenges that they've not really been faced with up to now. The first of those revolves around returns.

I think we all understand that living in a low rate environment is challenging for investors, certainly compared to the one that they've been used to living into over the last 30 years.

The second issue is a slightly more subtle one.

Volatility in the asset class has been incredibly low now for a long period of time.

That's particularly true in the post crisis period because of-course central banks have conducted large scale asset purchase programs that have really helped minimise the volatility that we've experienced in this asset class as they step back and potentially unwind those programs.

We fully expect to see volatility move higher as we go forward.

The more subtle distinction as well on this issue is perhaps around the level of issuance that's been conducted by corporates and governments globally where they've issued the very longest dated debt they can that's extended duration significantly in more traditional bond benchmarks and investors have probably more capital at risk today than perhaps they realise.

The third issue that investors need to contend with is the extent of diversification that's available to them for the fixed income portfolios today. Diversification traditionally has come from significant holdings in sovereign bond allocations. For us that diversification doesn't look anywhere near as good going forward.

And interestingly perhaps in recent years, episodes like the taper tantrum have demonstrated that allocations of sovereign bonds are perhaps the cause or source of that level of instability.

JOUBEEN HURREN:

How to protect capital is one of the main challenges that fixed income investors are facing at the moment because traditionally everybody's relied on duration and that's fine when yields are falling.

You know we've had a 30 year bull market in the fixed income space.

The problem now is that it looks like we're in a bit of an inflection point and yields are actually moving higher.

So how do you protect capital in a portfolio when you can't rely on duration on government bonds as being that same protective hedge.

That's why we think the absolute return funds are such an exciting opportunity at the moment because they have the ability to build capital preservation back into portfolios in a way that's been lost in traditional fixed income approaches.

JAMES MCALEVEY:

So we've launched AIMS fixed income here at Aviva Investors to help address some of the core underlying issues we believe investors face in today's more challenging and difficult market conditions.

This product has a firm wide commitment to help it deliver on its objectives. We are very long term in terms of the way that we aim to deliver these outcomes for investors.

JOUBEEN HURREN:

One of the things we spend a lot of time doing with our strategy team with our economics team is building a central case what we think the world is going to look like over the next one to two years and it means that we're tapping into that collective intellect across the entire Aviva Investors business and building the most robust portfolio that we can.

JAMES MCALEVEY:

We tend to allocate risk to between 25 and 35 individual investment strategies and it's also important to recognise as well that with the proliferation of risk parity type vehicles there's no quantitative input this is purely qualitative and judgmental process.

JOUBEEN HURREN:

We don't rely on yields falling or credit spreads compressing to make our return target.

We actually invest across six different sources and whilst duration and spread do play a really important role in the portfolio. We also invest across inflation at foreign exchange volatility and curve strategies and no one of these drivers is overly dominant at any given point in time.

It's really that flexibility that allows us to generate really attractive returns in environments that are challenging for traditional forms of investment.

KEY RISKS

The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.

Contingent convertible securities (coco bonds) are complex, their income may be cancelled or suspended, they are more vulnerable to losses than equities and they can be highly volatile.

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.

The fund uses derivatives, these can be complex and highly volatile. Derivatives may not perform as expected meaning 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 volatileco bonds) are complex, their income may be cancelled or suspended, they are more vulnerable to losses than equities and they can be highly volatile.

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