

# Aviva Investors

## Global Equity Endurance Fund

**Giles Parkinson, Fund Manager**

APRIL 2020

### April Commentary – In Search of Resilience

#### Fund Overview

The Fund seeks to increase the value of the Shareholder's investment over the long term. The Fund Manager aims to achieve this through an approach of investing in a high-conviction, low turnover portfolio of 'cheap durables', predictable cash generative businesses acquired at attractive cash-based valuations.

#### Monthly Performance

- The fund unit price rose by 10.0% in April; the MSCI All-Countries World Index rose by 10.7%
- YTD the Fund has declined by -7.2%; the MSCI All-Countries World Index has fallen by -12.9%
- Since inception, the Fund has increased by 45%; the MSCI All-Countries World Index has risen by 27%
- Since inception the cumulative monthly capture ratio of the Fund has been 1.4, with an average upside capture of 98% and downside capture of 71%

Past performance is not a guide to future performance.

#### Month in Review

Markets rebounded sharply in March.

The top three contributing stocks were First Republic Bank, Equifax, and UnitedHealth Group.

The biggest single detractor in the month was the global leader in lock manufacturing Assa Abloy (-51bps). The majority of their demand comes not from volatile newbuild construction but is driven by more predictable repair and replacement. This ordinarily makes them less cyclical than the average manufacturing company. However, the Coronavirus recession is atypical in that it has been triggered by lockdowns across much of the world, which has the effect of preventing maintenance activities from occurring. In the near-term this removes the cushioning effect on revenues that Assa Abloy normally sees as demand ebbs. However, looking further out, the resilient characteristics of the business model may reassert themselves as the lockdowns are lifted and we move into the next phase of a more typical recession and eventual recovery.

#### In Search of Resilience

Our previous commentary 'A Basket of Deplorables' described how turnover in the fund spiked during March as we sought to take advantage of the opportunities which the market dislocation presented us with. Activity was lower this month, and the stocks we bought were of a different nature. Whilst we didn't know it at the time, March was about assembling a recovery basket from the bottom-up; in April we went in search of resilience. We found one new holding – Humana – and materially increased our position size in another, Marsh & McLennan. Combining both roles of portfolio manager and analyst becomes crucial in times of heightened volatility and operating uncertainty which demands nimble decision-making. In this way, informational knowledge becomes analytical understanding that is applied with an effective behavioural edge, avoiding panic and emotional missteps.

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Humana is an American medical insurance operator that is a peer to another portfolio holding, UnitedHealth Group. The company almost exclusively focuses on Medicare Advantage, which provides coverage to senior citizens, and little exposure to commercial insurance, which will come under some pressure as unemployment spikes. It's earnings have been uniquely undisrupted by coronavirus. Without the knowledge base behind our existing position in UnitedHealth it is unlikely that we would have been able to make the connected thinking and move so quickly into Humana, which ended the month at 1.9%.

Marsh & McLennan was trebled to 3.5%. The stock price underperformed the general market since the selloff despite its resilient business lines. Moreover, insurance pricing is currently a tailwind for insurance broking rather than acting as a headwind as in the '08/'09 downturn. Along with AON, 7.9% of the fund is currently invested in this industry.

Yet, resilience is about more than simple earnings. Alphabet is thinning out their cost base, Visa and Mastercard have experienced an acceleration of electronic payments displacing cash as a consequence of the lockdowns and social distancing measures, and First Republic stepped up market share gains as other banks pulled back. We aim to invest in companies with resilient earnings streams better positioned to weather storms and predictable directions of travel, which allows for clever capital deployment by management, so that our portfolio companies will likely emerge stronger.

### Looking Ahead

The Global Equity Endurance Fund is a portfolio of what we believe to be above-average businesses trading at a cheaper free cash flow yield than the market and a discount to their intrinsic value. A combined focus on the durability of a company and the price we pay for the stock enables us to exploit opportunities and ought to make the approach adaptive to changing market conditions. As a long-term strategy with low turnover we fully expect and recommend that unitholders judge our performance over a period of five years or more.

Source: Aviva Investors

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### Key Risks

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 and exchange rates. Investors may not get back the original amount invested.

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.

The Fund invests in emerging markets, these markets may be volatile and carry higher risk than developed markets.

The Fund invests in a small portfolio of securities. Losses from a single investment may be more detrimental to the overall performance than if a larger number of investments were made.

The Fund uses derivatives; these can be complex and highly volatile. This means in unusual market conditions the Fund may suffer significant losses. In unusual market conditions, the Fund may have difficulty selling its investments, which may cause it to suffer losses, defer redemption payments or suspend dealing in shares.

Investors' attention is drawn to the specific risk factors set out in the fund's share class key investor information document ("KIID") and Prospectus. Investors should read these in full before investing.

### Important Information

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. The legal documentation and the subscription documents should be read before an investment is made. 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.

The Prospectus and Key Investor Information Document (KIID), are available, together with the Report and Accounts of the SICAV, free of charge from Aviva Investors Luxembourg, 2 rue du Fort Bourbon 1st Floor.L-1249 Luxembourg, Grand Duchy of Luxembourg R.C.S. Luxembourg B25708, Aviva Investors, St Helen's, 1 Undershaft, London EC3P 3DQ or relevant office below. The Prospectus is available in English and German. 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 Raiffeisen Bank International AG, Am Stadtpark 9, 1030 Vienna the paying agent and in Switzerland, from the representative and paying agent BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. In Germany, The Paying and Information Agent in the Federal Republic of Germany is Marcard, Stein & Co AG Ballindamm 36 20095 Hamburg, Germany. 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 UCITS is authorised by the CNMV with registration number 7. You can also download copies at [www.avivainvestors.com](http://www.avivainvestors.com). Aviva Investors Global Services Limited, registered in England No. 1151805. Registered Office: St Helen's, 1 Undershaft, London EC3P 3DQ. Authorised and regulated in the UK by the Financial Conduct Authority and a member of the Investment Association.

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