Aviva Investors
Global Equity Endurance Fund

Giles Parkinson, Fund Manager

July 2019

Unintended consequences

The fund rose by 1.9%* in July, whilst the MSCI All-Countries World Index increased by 0.3%. Since inception the fund is up 41.1%*, whilst the MSCI All-Countries World Index is up 34.2%*. 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.

Societal unease with the scale and scope of America's technology giants has been building for some time. The concerns are threefold: potential anticompetitive behaviour, appropriate custodianship of consumer data, and their functional impact on the democratic process. The most recent development in July was an announcement by the US Department of Justice of an antitrust investigation into "market-leading online platforms." This certainly includes Alphabet (Google) which at month end is a material 4.8% portfolio holding in Global Endurance. Indeed, we believe that this realised eventuality is responsible for the longstanding discount that this durable piece of internet infrastructure trades at with respect to it's future profitability. However, whilst such regulatory activities raise uncertainty, history shows that they are frequently beneficial to shareholders on a multi-year time horizon because they in fact tend to harm, rather than help, competitive dynamics.

Government actions aimed at increasing competition tend to have unintended consequences which counter-intuitively often benefit the targets, especially for those with so-called network effects. The primary reason for this is that the intervention usually increases total costs to business through a higher regulatory burden or some form of tax; the unexpected part here is that these measures often impact both large and small players, with the smaller companies suffering disproportionately. Examples of this are America's 2010 Affordable Care Act or Europe's 2016 General Data Protection Regulation measures. In both instances, operating and compliance costs increased, which many smaller companies were under-equipped to deal with, ultimately further entrenching the position of the sophisticated leading firms. Moreover, these benefits accrue to incumbents whose dominance is secured in a market characterised by network effects in a particular way. When the cost of adding an incremental user is low, an increase in compatibility enhances the overall value of the network. An example of this is the 2001 Microsoft settlement on software and services, Microsoft was 'punished' by being forced to share source code with competitors that ironically created an open architecture that made them a central player in the industry. The 1996 Telecommunications Act, which required local monopolies to provide interconnectivity with their networks, is another example, as it spurred the consolidation of the regional Bell operating companies and diminished competition. This is particularly pertinent with respect to calls for 'data portability' today. At face value, this strikes directly at Alphabet's competitive advantage as it would enable new entrants to leverage this data, but on reflection it could further disincentivise the fostering of competing data sources, serving to further entrench Google's position. To those interested in the broader topic we suggest a recent book 'The Myth of Capitalism: Monopolies and the Death of Competition' by Jonathan Tepper.

*Source: Bloomberg, I USD share class, Net of fees. The inception date of the fund was 21st November 2016

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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.

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

Except where stated as otherwise, the source of all information is Aviva Investors Global Services Limited ("Aviva Investors") as at 30 July 2019. 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 advice of any nature.

Past performance is not a guide to future performance.

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 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.

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