

Aviva Investors

Global Equity Endurance Fund

Giles Parkinson, Fund Manager

MARCH 2020

A Basket of Deplorables

Fund Overview

The Fund seeks to achieve resilient returns over the long term by investing in a high-conviction, low turnover portfolio of 'cheap endurables', predictable cash generative businesses acquired at attractive cash-based valuations.

Monthly Performance

- The fund unit price fell by -9.8% in March; the MSCI All-Countries World Index fell by -13.5% in the month.
- The relative fund return is distorted by a decline on Wall St after the SICAV's 3pm London-time valuation point on the last trading day of the month. We estimate this benefitted the relative returns of the fund versus the index by around 1.4%.
- Since inception the cumulative monthly capture ratio of the Fund has been 1.4, with an average upside capture of 99% and downside capture of 71%

Past performance is not a guide to future performance.

Month in Review

Markets declined sharply in March.

The top three contributing stocks were Prudential, Heico, and Campari. We discuss these and other purchases in the commentary below.

The biggest single detractor was Equifax (-97bps). The company is somewhat levered at 2.8x nd/EBITDA which screens unattractively given their debt covenant at 3.5x nd/EBITDA and a somewhat cyclical earnings stream. However, this covenant only applies to their undrawn banking facilities, which given their liquidity position we do not believe they will need to tap. Free cash flow was positive and more resilient than earnings in the financial crisis; last year they generated free cash flow even under a heavy burden of restructuring costs and capital investment relating to the 2017 data breach, both headwinds will ease this year.

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March Commentary – A Basket of Deplorables

Markets declined sharply in March as western governments attempted to curb the coronavirus pandemic by restricting economic activity. Whilst we did not predict this outcome, we nevertheless went into it prepared.

First, we sold high. Coming into this year we had found it increasingly difficult to justify some of our investments on a prospective basis and struggled to find new ideas which met our return hurdles to replace them. Consequently, we reduced holdings on 21st February and sold out of Microsoft entirely on 24th February, the latter event described in our last commentary

‘The Art of Execution’. In hindsight the S&P500 topped out on 19th February and Endurance went into the selloff with a 6% cash position. It is important to stress that our decisions which led to this positioning were not a top-down market timing call, but the result of a bottom-up view of fundamental intrinsic value.

Then, we bought low. Sharp dislocations play to our strengths, whilst our fund turnover can appear sloth-like at times, we try to understand a little more about the world every day and have accumulated a clear view of what many equities are worth, and why. We follow a far broader universe of companies than are represented within our concentrated portfolio, so when prices move, we can get current quickly. Moreover, whilst we spend most of our time on the cashflow and income statements, we are able to read a balance sheet too. Cash combined with courage in a crisis can be priceless. When Italy went into lockdown, we doubled the small holding in Campari, and shortly thereafter bought into Heico (aerospace), Prudential plc (Asian savings), Melrose Industries (aerospace & autos), and Flughafen Zurich (airport). We estimate these purchases contributed 69 basis points to the fund return in March, of which 8 basis points was realised by selling Melrose and trimming the others. This ‘basket of deplorables’ accounted for 4.9% of fund NAV at month-end. They’re somewhat less endurable than the existing portfolio and all four have readily identifiable challenges in the near-term. However, we regard these issues as overly discounted at the prices we paid for the shares, and ultimately transitory with a little bit of patience as the companies have the balance sheet strength to last through to the other side. We believe that balance sheets elsewhere in the portfolio are satisfactory; our more indebted holdings are either supported by a cyclical cashflow streams or have covenant-free debt and access to sufficient liquidity.

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.

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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. 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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