

Aviva Investors

Global Equity Endurance Fund

Giles Parkinson, Fund Manager

JANUARY 2020

January Commentary – Inconsistent Alpha

Fund Overview

The Fund seeks to achieve resilient returns over the long term by 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 rose by 3.5% in January; the MSCI All-Countries World Index fell by -1.1%
- Since inception the Fund has increased by 62%; the MSCI All-Countries World Index has risen by 44%
- Since inception the cumulative monthly capture ratio of the Fund has been 1.6, with an average upside capture of 99% and downside capture of 61%

Month in Review

Equities tagged an all-time-high in January before retracing to end the month down.

Portfolio gains in the month were broad based across the holdings. **Equifax** (+45bps) and **Danaher** (+21bps) were the top and sixth biggest contributing stocks respectively. We elected to manage the position sizes and valuation risk by reducing these investments from 5.6% and 3.5% to 4.9% and 2.7%. In the case of Equifax, this unwinds purchases made at much lower levels back in October 2018 after a profit warning. **Abbott Laboratories** (+6bps) began the month at 2.3% and was sold entirely. To replace them, we initiated a holding in **Ingersoll-Rand** (+10bps).

The single biggest negative detractor was **UnitedHealth Group** (-21bps) which features regularly in these updates as volatility in the stock has picked up going into the 2020 American Presidential election, but one where we are comfortable with the position sizing.

Markets fell in January, yet the Fund was up. Our focus is on value and new take prices as served. Accordingly, we sold Abbott Labs, trimmed Danaher and Equifax (all on mid-to-high 20s forward price/earnings ratios and free cash flow yields of 4 percent or less) and started a holding in HVAC company Ingersoll-Rand (on a starting free cash flow yield of 5 percent) which ended the month at 3.9% in size. This activity echoes, in a small way, our actions last summer – discussed in our June commentary *Healthy Paranoia* – as we use turnover in an attempt to preserve the valuation integrity of the portfolio and maintain focused on cheap durables.

The relative performance in January illustrates an important point about the inconsistency of alpha. We take our gains unevenly over time. Just how lumpy can things get? Endurance had a flying start in life, and six months after inception was fourth percentile versus the Lipper Global Equity peer group in May 2017. The spurt proved ephemeral. A year later the Fund had dropped back to the third quartile. Today, we are back in the top decile since inception. 1. Rather than alarming, we would characterise this as normal and healthy. Normal, because studies that have assessed long-run fund performance have shown that spells at the bottom of the league tables are routine. 2. Healthy, because we define risk as permanent impairment of value not temporary deviation of price. Our primary concern is to maximise the compounding of returns by minimising drawdowns. The portfolio is therefore constructed in a benchmark agnostic fashion, where weightings are only a residual output and never a starting point, and does not aspire to benchmark neutrality, which implicitly assumes that the index is the

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risk-free choice. Unafraid to be different, the makeup of the Global Equity Endurance Fund looks nothing like the MSCI All Countries World Index, our performance comparator. The collective price of 31 stocks listed on nine exchanges is almost certain to deviate from that of 3,050 companies drawn from 49 countries. (To be clear, the MSCI ACWI is a reasonable proxy for assessing our returns, as it is a recognised index that overlaps with our large-cap international investment universe and can be accessed at low cost). Consequently, our approach almost guarantees that our return profile will deviate at times. On occasion, we have looked dead wrong, but your managers have been tested by fallow periods before and, thus far, have demonstrated the ability to cleave to a process whilst suffering through the slings and arrows of outrageous fortune.

PERFORMANCE (%)

| | Calendar | | | | | Discrete Annual to last quarter end | | | | |
|-----------|----------|-------|-------|------|------|-------------------------------------|----------|----------|----------|----------|
| | 2019 | 2018 | 2017 | 2016 | 2015 | 31/12/18 | 31/12/17 | 31/12/16 | 31/12/15 | 31/12/14 |
| | | | | | | to | to | to | to | to |
| Fund | 27.89 | -3.77 | 12.54 | - | - | 27.89 | -3.77 | 12.54 | - | - |
| Benchmark | 21.71 | -3.79 | 13.24 | - | - | 21.71 | -3.79 | 13.24 | - | - |
| Relative | 5.08 | 0.02 | -0.62 | - | - | 5.08 | 0.02 | -0.62 | - | - |

| | Cumulative Performance | | | | | | | Annualised | | | | |
|-----------|------------------------|------|-------|-------|-------|-------|----|------------|-------|-------|----|-----------|
| | 1m | 3m | 6m | YTD | 1Y | 3Y | 5Y | Since | 1Y | 3Y | 5Y | Since |
| | | | | | | | | Inception | | | | Inception |
| Fund | 3.93 | 7.43 | 3.71 | 3.93 | 28.67 | 44.77 | - | 49.92 | 28.67 | 13.12 | - | 13.78 |
| Benchmark | -0.61 | 2.95 | -0.23 | -0.61 | 15.79 | 30.62 | - | 34.46 | 15.79 | 9.31 | - | 9.90 |
| Relative | 4.57 | 4.35 | 3.95 | 4.57 | 11.12 | 10.83 | - | 11.50 | 11.12 | 3.49 | - | 3.53 |

Past performance is not a guide to future performance

Source: Aviva Investors/Lipper, a Thomson Reuters company as at 31 January 2020

Basis: Mid to mid, gross income re-invested, net of fees, in Sterling

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.

1. Source: Lipper database, January 2020

2. In the United States, over a ten year period from 2000 to 2009, 97% of top quartile funds spent at least three of those 10 years in the bottom half of performance, 79% spent at least three years in the bottom quartile, and 47% spent at least three years in the bottom decile. Source: Joel Greenblatt, The Big Secret for the Small Investor (2011), citing work by Davis Advisors

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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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