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AVIVA INVESTORS MULTI-STRATEGY TARGET INCOME FUND

FUND IN BRIEF: A GUIDE FOR INVESTMENT PROFESSIONALS

AVIVA INVESTORS

DESIGNED TO DELIVER ABSOLUTE INCOME

In today's uncertain world, generating an attractive level of income that is sustainable is not straightforward. Bond yields and annuity rates are at, or near, record lows while equities are as risky as ever. The Aviva Investors Multi-Strategy (AIMS) Target Income Fund could be the answer to your clients' income conundrum. It is designed to deliver absolute income by targeting consistent, sustainable income while seeking to preserve capital, regardless of market conditions.

The AIMS Target Income Fund:

- Targets annual income yield of 4% above the Bank of England base rate gross of corporation tax.
- Pays income on a monthly basis.
- Seeks to preserve capital.
- Aims to be less than half as volatile as global equities over any three-year period.

The fund invests in liquid financial instruments which should enable the fund managers to quickly adjust positions as the outlook for markets and economies changes.

The target income yield is an annual target from 1 April to 31 March each year. It is measured daily using the prevailing Bank of England Base Rate and is based on the daily value of the fund. Corporation tax (currently 20%) is payable on some of the fund's income and is not repayable to investors. The impact of corporation tax will mean that the yield received by investors may be up to 20% less than the actual yield generated by the fund. Charges are deducted from capital and not income. The fund's managers aim to grow the fund's capital by 1% in order to offset the impact of charges and seek to preserve capital.

FIVE DIVERSE SOURCES OF INCOME

The AIMS Target Income Fund invests in a diverse range of income-producing assets, meaning that the level of income generated is fairly predictable, barring credit events. Distributions are paid from income receipts alone and not out of the fund's capital.

The fund generates its income from five main sources:

- Equity dividends
- Government bond coupons
- Corporate bond coupons
- Real-estate investment trust (REIT) dividends
- Option premia

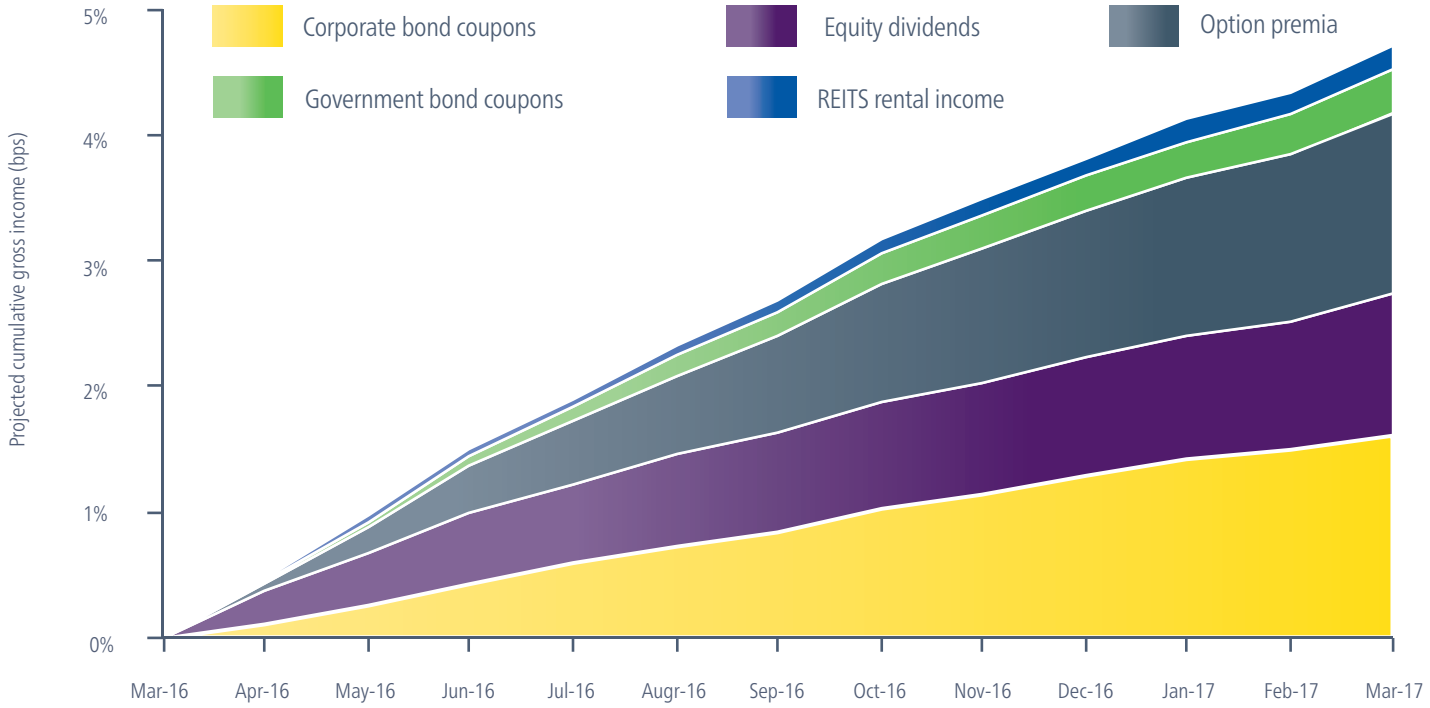
Building a portfolio that aims to meet clients' income goals is not straightforward, not least because the income generated by individual asset classes can fluctuate and be irregular. The balance between risk and reward also varies across these investments. The relatively high income generated by equities, for example, has to be offset against the greater volatility of this asset class.

Government bonds, by contrast, generate relatively low amounts of income but are regarded as a safe haven in times of uncertainty. By gaining exposure to all these sources of income the fund can build a balanced portfolio which seeks to generate an attractive level of income that is sustainable.

GENERATING ABSOLUTE INCOME

The combined income from the various sources is smoothed with the aim of delivering consistent monthly income payments. One of the criteria we apply to the income-producing strategies that we select to include in the fund is that they produce natural income. In other words, income is not generated by the sales of units. Figure 1 shows how each of the sources contributed to the fund's overall income target in the fund's accounting year running from 1st April 2016 to 31st March 2017. The fund also holds a small amount of cash and this generates some income as well.

Figure 1: Realised cumulative gross income



Data points: Income is calculated weekly as a percentage of the daily NAV of the fund.

Source: Aviva Investors, as at 31 March 2017.

Figure 2: Delivering absolute income: fund delivers on income target and met its income objective in both the 2015/2016 and 2016/2017 accounting years.

Accounting year fund generated	Gross income yield before corporation tax	Net income yield
2016/2017	5.01%	4.45%
2015/2016	4.80%	4.50%

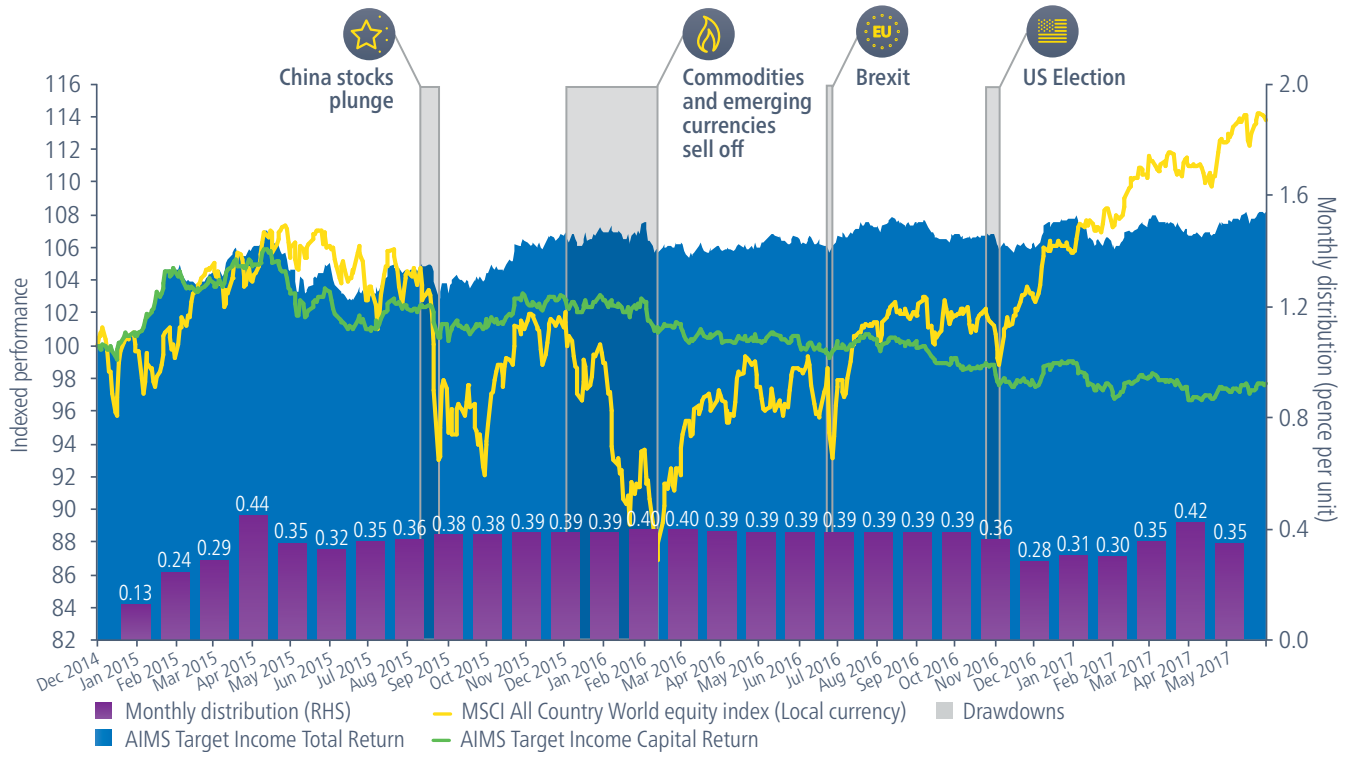
Source: Aviva Investors, as at 31 December 2017.

The above yield figures reflect distributions declared over the accounting year. The gross yield is calculated on a daily NAV basis. The net yield is calculated using the share price as at 31 March 2016. These yields do not include the effect of any entry or exit charge and investors may be subject to further tax on their distributions. If you would like to obtain the most recent historical net income yield please contact us.

The fund's expenses are charged to capital. This has the effect of increasing the distributions for the year by a maximum of the ongoing charge for the share class and constraining the fund's capital performance to an equivalent extent.

The fund was launched on 1 December 2014. Figure 3 (opposite) shows how it has performed over its full two year accounting period.

Figure 3: Aiming to deliver income while protecting capital in stressed times



Source: Aviva Investors, Lipper, a Thomson Reuters company, as at 31 May 2017. Basis: performance is shown net of all fees and charges, share class 2, Mid to mid, in GBP, unless indicated otherwise. Inception date 1 December 2014. The Total Return and Capital Return curves show cumulative performance since inception after tax. Income is declared on the first day of the following month and paid at the end of the month.

A PORTFOLIO TO DELIVER INCOME IN ALL MARKET CONDITIONS

Our multi-strategy approach allows our fund managers both to invest in a wide array of opportunities, and to do so in a precise fashion. For example, the fund can take 'short' as well as 'long' positions, in order to attempt to profit from both falling and rising asset prices. And the managers may look to invest in a particular segment of the stock market rather than the market as a whole. They may also target debt of a specific maturity or attempt to exploit perceived anomalies in the relative valuations of two similar, but different, assets. They can even look to profit from a change in market volatility.

In selecting strategies and integrating them into a cohesive portfolio, we identify characteristics for each of them that mean they fall into one of three groups:

MARKET STRATEGIES

Seek to capture the natural risk premia associated with assets. So, typically we would expect to have exposure to assets such as equities, corporate and government bonds and real estate. These strategies would normally be consistent with our 'House View'.

In the Target Income Fund, these positions are key generators of natural income, but can also deliver capital appreciation.

OPPORTUNISTIC STRATEGIES

Seek to exploit pricing anomalies caused by the actions of other market participants. This can entail market mispricing as a result of non-profit seeking participants' actions such as central banks and pension funds.

These positions may be held to deliver both income and capital appreciation.

RISK-REDUCING STRATEGIES

Seek to generate positive returns in the event that the central 'House View' does not materialise. We expect these positions to support performance during times of market stress when market strategies may struggle.

In addition to positive returns during market downturns, these positions may generate some incremental income.

RISK MANAGEMENT IS CENTRAL TO THE PORTFOLIO-CONSTRUCTION PROCESS.

We look to manage risk by having exposure to various sources of risk. They include interest-rates, credit, equities, currencies, property and market volatility.

The AIMS funds' dedicated risk team works with the portfolio managers to build a robust, diversified portfolio. Our starting point is to ensure that the fund can deliver the primary outcome for clients, a sustainable income.

As part of the portfolio-construction process, we then balance these positions alongside a range of other strategies across groups and risk factors, in order to mitigate risk as far as possible while delivering income.

EXAMPLES OF SOME OF THE STRATEGIES IN THE PORTFOLIO

MARKET STRATEGIES

Long global equities
A segregated mandate, run by Aviva Investors' global equity team. Delivers income from the dividends received, and provides exposure to equity risk.

Long US high yield credit
Global rates are expected to remain low by historic standards. Combined with a robust US economy we believe this means US high yield credit offers an attractive yield when investing in selected credits.

OPPORTUNISTIC STRATEGIES

Call options overwriting
Selective writing of equity calls on single stocks that are held in the separate global equity portfolio in which the fund invests. We sell call options on a selective basis where we believe the future volatility of the underlying shares, that is being implied by the options' prices, is too high.

US curve steepener
We believe that the probability that the Fed can continue its tightening cycle and the pace of this hiking cycle are higher than is currently implied by the market.

RISK-REDUCING STRATEGIES

US relative value
US small cap stocks rallied very strongly in 2016, and are expensive compared to large caps. This trade also has defensive characteristics as small caps typically fall more than large caps in sustained market sell-offs.

Korean/US variance
We believe the market is mispricing the relative volatility of the US and Korean stock markets. Korea's economy tends to be more cyclical, and hence its stock market more volatile. This position should deliver capital appreciation in periods of market stress.

KEY BENEFITS

Aiming to deliver attractive income

- Targets an annual income of 4% above the Bank of England base rate before corporation tax.
- The income paid comes from income receipts alone and not from a reduction in the fund's capital.

Smoother income payments

- The fund aims to make regular monthly distributions by investing in a diverse range of income-producing strategies. The aim is to pay out roughly one-twelfth of the annual income target each month.

Seeks to preserve capital and manage volatility

- The fund seeks to generate sufficient growth to preserve capital, while aiming to be less than half as volatile as global equities over any three-year period. The fund's managers draw on ideas generated by investment professionals from across our business.

Portfolio diversification

- The fund's innovative investment approach means it can increase the diversification of traditional multi-asset portfolios, boosting prospective risk-adjusted returns.

KEY RISKS

Past performance is not a guide to future performance. 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.

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 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.

For more information about the risks involved when investing in the fund, please refer to the Key Investor Information Document and the Prospectus. Copies are available free of charge in English on request or on our website avivainvestors.com

KEY FUND INFORMATION

Fund name	Aviva Investors Multi-Strategy Target Income Fund
Investment objective	The fund aims to deliver an annual income yield of 4 per cent above the Bank of England base rate before corporation tax payable by the fund, regardless of market conditions. The fund also aims to preserve capital, and to manage volatility to a target of less than half the volatility of global equities over any three-year period. Income on the fund is paid monthly.
Fund structure	A sub-fund of the Aviva Investors Funds ICVC, a UK domiciled UCITS.
Share class and type	Share class 2 (platforms/institutional): Income Share class 6 (retail): Income
Currency of fund	GBP
Fund launch date	1 December 2014
Liquidity	Daily pricing
Settlement	T+4
Investment Association sector	Targeted Absolute Return
ISIN Code	Share class 2 (platforms/institutional): GB00BQSBPF62 Share class 6 (retail): GB00BQSBPJ01
SEDOL	Share class 2 (platforms/institutional): BQSBPF6 Share class 6 (retail): BQSBPJ0
Annual ongoing charge[1]	Share class 2 (platforms[2]/institutional): 0.85% Share class 6 (retail): 1.10%
Entry charge[3]	Share class 2 (platforms[2]/institutional): Nil Share class 6 (retail): Currently 0% other than execution only where it is up to 1%.
Minimum Investment	Share class 2 (platforms[2]/institutional) Direct: £500,000 Share class 6 (retail) Direct: £1,000 Share class 6 (retail) ISA: £500

1. The ongoing charge is estimated to reflect a current indication of expected charges. The ongoing charge figure would ordinarily be based on expenses incurred in the previous accounting period.

2. Note: If you access Aviva Investors funds via a platform then you should speak to them directly about their terms and conditions and the availability of share classes. Investments via a fund platform will be subject to that platform's minimum investment criteria and charging structure.

3. The entry charges shown above are those that currently apply. These may be lower than the entry charge shown on the Key Investor Information Document as those are based on standard entry charges as detailed in the Prospectus. In the future, we may increase these charges for new investments.

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Important information

Except where stated as otherwise, the source of all information is Aviva Investors Global Services Limited ("Aviva Investors") as at 6 December 2017. 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.

The attention of investors is drawn to the 'Risk Warnings' contained in the Prospectus. Due to the fact the strategy will make significant use of financial derivatives, the following risk factor is particularly relevant.

The content of this communication does not purport to be representational or provide warranties above and beyond those contained in the Prospectus and subscription documentation of the Funds. The Prospectus and the subscription document contain the full terms, conditions, representations and warranties in respect of the Funds. Nothing in this communication shall be construed as forming any part of those terms, conditions, representations or warranties.

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 Aviva Investors Multi-Strategy Target Return Fund is a sub-fund of the Aviva Investors Investment Funds ICVC and the Aviva Investors Multi-Strategy Target Income Fund is a sub-fund of the Aviva Investors Funds ICVC. For further information please read the latest Key Investor Information Documents and Supplementary Information Documents. The Prospectus and the annual and interim reports are also available on request. Copies in English can be obtained from Aviva Investors UK Fund Services Limited, St Helen's, 1 Undershaft, London EC3P 3DQ or by contacting us on + 44 (0) 20 7809 6000. You can also download copies from our website.

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