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Aviva Investors Multi-Strategy Target Return

Monthly summary for June 2022

ISIN	UNIT CLASS INCEPTION DATE	FUND SIZE
AU60PIM00268	01/07/2015	AUD 211.57m

Fund overview

Objective: To achieve a 5% per annum gross return above the Reserve Bank of Australia Cash Rate (or equivalent) over a 3-year rolling period, regardless of market conditions (absolute return).

* Ian Pizer used to manage this fund from 01/07/2014 to 01/09/2018 and again he is an active fund manager from 06/05/2021 to present.

Summary

Underlying Fund managers	**Peter Fitzgerald** since 07/2015 ***Ian Pizer** since 05/2021
Performance benchmark	**RBA cash rate + 5%**

What happened in the market

Risky assets fared an even worse Q2 than in Q1, dragging many markets into bear territory. There were very few places to hide, with traditional safe haven bond markets sharply widening to levels not seen since 2018 on the back of persistently high inflation prints.

How the fund performed

The AIMS Target Return Fund ended the quarter in negative territory. Market Returns led the declines, while gains in Opportunistic and Risk-Reducing Returns helped to buffer the portfolio.

Looking ahead

We recognise growing recession risks; however, recession in the US is not our base case scenario for this year. Our bias to value over growth within equities alongside a short position in bonds remains in place.

What happened in the market

Risky assets fared an even worse Q2 than in Q1, with global equities declining an additional 15% and dragging many markets into bear territory. There were very few places to hide, with traditional safe haven bond markets sharply widening to levels not seen since 2018 on the back of persistently high inflation prints. The US dollar was one area of safe haven flows, rising 6.5% over the period and closing H1 up 9.2%; meanwhile, gold reversed all gains from the previous quarter, ending the year down 1.2%.

April started in risk-off mode, with global equities experiencing the highest monthly decline since the COVID-induced returns of March 2020. The theme of inflation and rising rates meant growth stocks such as technology and consumer discretionary underperformed heavily against more defensive and value sectors such as healthcare and energy. Developed market bond yields continued to rise on the prospect of tighter monetary policy.

Risk markets saw a bit of respite in May as speculation of less aggressive rate hikes by the US Fed buoyed investor sentiment; global equities closed more or less flat over the month. US Treasury yields remained relatively rangebound; however, German bund yields widened considerably on the back of increasingly hawkish ECB rhetoric.

Global equities resumed its downward spiral in June, leading the S&P to experience the biggest H1 decline in 60 years as recession risks were quickly priced in across equities and credit. Commodity prices were also impacted, with declines seen across the energy, metals and agricultural complex. Developed bond yields continued their march higher due to the persistent inflation backdrop.

How the fund performed

	Cumulative (%)					Annualised (%)		
	1M	3M	6M	FYTD*	1Y	3Y	5Y	Since Inception
Fund gross	-4.45	-3.20	-1.54	0.65	0.65	2.89	2.36	2.57
Fund net	-4.52	-3.43	-2.00	-0.30	-0.30	1.92	1.40	1.60
Benchmark	0.42	1.26	2.55	5.10	5.10	5.33	5.80	6.08

Past performance is not a guide to future performance.

Performance basis: NET OF FEES, COSTS, TAXES. Mirrors Australian Dollar Hedged 'F' Share Class of the Aviva Investors Multi-Strategy Target Return Fund, a sub-fund of Aviva Investors SICAV. The Fund's performance is measured against the Reserve Bank of Australia Cash Rate + 5%. *Financial year-to-date. The financial year runs from 1 July to 30 June.

The AIMS Target Return Fund ended the quarter in negative territory. Market Returns led the declines, while gains in Opportunistic and Risk-Reducing Returns helped to buffer the portfolio.

Given the market backdrop, **Market Return** strategies detracted most at fund level. The custom basket of oil & gas stocks contributed positively to performance, even with the pullback in June. On the other hand, long US, European and emerging market equities led the declines.

Opportunistic Returns were able to deliver positive performance, marking the 11^{th} out of 14 consecutive quarters since 2019 to deliver gains. The short rates position across US, India and Japan were the leading contributors. Our exposure to the more defensive long Healthcare vs market also contributed positively.

The **Risk-Reducing** section also posted gains, across both the strong balance sheet equity relative value and the discretionary options hedges.

Looking ahead

We continue to monitor the balance between slowing but still positive growth, developments around the war in Ukraine and central bank tightening to contain elevated inflation. We recognise the growing recession risks; however, our constructive medium-term outlook for selective equities remains, with the focus on position management to adjust for the current risk landscape. Higher sovereign bond yields still appear to be the most likely direction of travel.
At portfolio level, we initially increased our equity positioning to take advantage of what we perceived to be oversold levels in equity markets then subsequently scaled exposure back to levels at the start of the quarter. We continue to maintain preference for value versus growth alongside short volatility as a better proxy for credit. We remain short rates in Japan, the US, and India.

Within **Market Returns**, we reduced our overall risk level, mainly through long US and oil & gas equities exposure. We introduced a new long Resources strategy consisting of companies well placed to take advantage of structurally higher commodity prices. Select oil and gas equities remain a high conviction position.

Within the **Opportunistic** section of the portfolio, we maintain our value bias through a new long European banks relative value, alongside travel and leisure and select value equities positions. This is balanced with the more defensive long healthcare equity relative value strategy. Over the period we also increased our long commodities exposure and closed our long gold position.

The **Risk-Reducing** section of the portfolio consists of defensive equity relative value and discretionary options hedging strategies.

Fund risks

The key risks of the fund, which are detailed in the product disclosure statement, are:
- Collateral risk
- Counterparty risk
- Credit risk
- Currency risk
- Derivatives risk
- Emerging markets risk
- Equity risk
- Fund risk
- Fund Structure risks
- General risks
- Interest rate risk
- Leverage risk
- Liquidity risk
- Market risk
- Operational risk

Important information

The source for all performance, portfolio and fund breakdown data is Morningstar unless indicated otherwise.

All data is as at the date of the Commentary, unless indicated otherwise. For share classes that have not yet completed 5 years, the cumulative performance chart will start from the first full month.

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.

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