Aviva Inv UK Listed Equity Income 2

November 2021
Investment Research

Opinion

Square Mile rating: A

Exclusion | Sustainable | Responsible Practices | Impact

FE fundinfo crown rating

Performance

3 years annualised returns: **7.22%**

% of time met performance objective over 5 years: **43.6%**

Risks

Risk of asset class: 1 2 3 4 5 6 7 8 9 10 (8)

Risk of fund within asset class: 1 2 3 4 5 (3)

SRRI: **6**

-33.84% 3 years max drawdown

Costs

Ongoing charges: **0.81%**

Transaction costs: **0.20%**

Total cost of investment: **1.01%**

ESG

Company: 0 1 2+ 3 (2+)

Fund: 0 1 2 3 (2)

Overview

The fund's managers seek to provide a yield that is in excess of the FTSE All Share index. Over time they also aim to maintain or look to increase the fund's income distributions. However, if market conditions dictate, dividend dispersals could be lowered to a more sustainable level.

Equity income funds are a suitable capital accumulation strategy, particularly when income is reinvested. Historically, income focused funds tend to have lower volatility than more growth orientated strategies.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●		●	

Square Mile Expected Outcome

We believe a return of 1.5% p.a. ahead of the FTSE All Share Index over rolling five year periods, would be a reasonable expectation for this fund.

Active/Passive: Active	**Domicile:** United Kingdom
Asset Class: Equity	**IA Sector:** IA UK Equity Income
Launch Date: 28/04/1989	**Fund Size (as at 12 Nov 2021):** £1133.3m
Yield: 3.41%	**Distribution Pay Date:** Apr 15, Oct 15 (Final)
Fund Manager: Chris Murphy, James Balfour	**Ongoing Charge Figure:** 0.81%
	Transaction Cost ex Ante: 0.20%

Fund Opinion

The appointment of Euan Munro in 2014 as CEO of Aviva Investors (AI) brought a refocus of priorities at the company. It has increased its profile within the market; most notably through its range of multi-asset strategies. The firm also bolstered its investment resource in equities following a number of hires including CIO, head of equities, David Cumming. However, Mr Munro departed the business in early 2021 and was replaced internally by Mark Versey. In addition, following a strategic review in mid 2021, Mr Cumming also left the firm and AI is currently considering the positions of a number of fund managers. Whilst these changes do not directly impact the management structure of this fund, we are mindful of the level of change within the investment team and maintain a close dialogue with the group.

The fund continues to be run by lead manager, Chris Murphy, who is a highly experienced investor. Over the course of his lengthy career, he has developed an investment process which ignores what he perceives to be short term market noise, and instead focuses on the long term potential of companies. This approach leads to him favouring firms that may be described as dull, but whose underlying businesses have the ability to compound returns over multiple investment cycles. Mr Murphy is ably supported by James Balfour, who was appointed as co-manager in 2016. This appointment represents Mr Balfour's first foray into managing money and although he has made a promising start, the fund's rating is very much dependent on Mr Murphy's continued involvement.

Overall, we view this fund as a solid UK equity income offering and although its naturally defensive profile may cause it to lag during strong momentum led markets, performance should prove more robust during troubled times. That being said, Mr Murphy and Mr Balfour have the courage to match their conviction and, at times, will construct a portfolio which, at a sector level, can look markedly different from the UK market.

Fund Description

Aviva Investors (AI) has seen a fair amount of personnel change over the past few years. In 2014, Euan Munro became CEO but left the business in early 2021 and was replaced internally by Mark Versey. Mr Versey joined AI in 2014 and was previously CIO of the company's real assets business. Furthermore, the firm hired David Cumming as CIO for the equities division in 2017 to build out that a number of regional equity teams. However, following a strategic review in mid 2021, Mr Cumming left the firm and AI are also considering the positions of a number of other fund managers.

Despite the most recent changes, the management structure of this strategy remains unchanged. It has been managed by Chris Murphy since April 2009, who has around 30 years investment experience. Mr Murphy joined the group in 2006 following a lengthy spell at AXA Framlington, where he was involved in running a variety of strategies. He has been supported on the fund by co-manager, James Balfour, since May 2016. Mr Balfour does not have lengthy investment experience but has made good progress since joining the firm on the graduate training scheme in 2012.

Mr Murphy operates under the philosophy that many investors are systematically biased. They are habitually driven by fear and greed and hence tend to overpay for perceived exciting growth opportunities. He believes that a more mundane approach to investment is appropriate, recognising that most companies returns will revert to average unless they have strong structural barriers to ensure that their operating margins are not competed away. Steady, simple businesses that have the ability to compound returns are ultimately the types of companies that the managers seek.

The managers categorise companies according to how they use cash, which is largely dependent on where a business is within its life cycle. Companies using cash to finance investment opportunities are often seen as enticing opportunities by the market, but it is important to be somewhat cautious when considering these types of businesses. Capital is generally only allocated to these companies when the return projection is clear, whilst situations will be avoided where high expectations have already been incorporated into the share price. In essence, it is investment in companies that are viewed as 'cash compounders' that is preferred. These firms tend to have impressive returns on investment and reliable and stable cash flows. Often, these businesses are perceived to be a little boring, though this is not an attribute which the managers see as a detriment. Opportunities are also found in 'cash flow recovery' stocks, where something has gone awry, whether it be company specific or related to the broader economy. The managers' approach to considering these types of stocks depends upon which of the categories the business falls into, but the pervading concern is the stock's valuation; ultimately this is the determinant of how returns will be generated by the fund. The managers' focus on the long term potential of each holding results in the portfolio turnover generally being quite low.

This fund is focused on stocks that look to generate higher levels of income and those seeking to grow their dividends. Investment is taken from across the market but typically it is focused on medium to large sized companies. Diversification is typically across 40-75 holdings, with individual stock positions limited to 5% of the fund's assets. The managers are aware of the fund's FTSE All Share benchmark, however the portfolio is not constructed with its index in mind and, at times, can look quite dissimilar particularly at the sector level.

Risk Summary

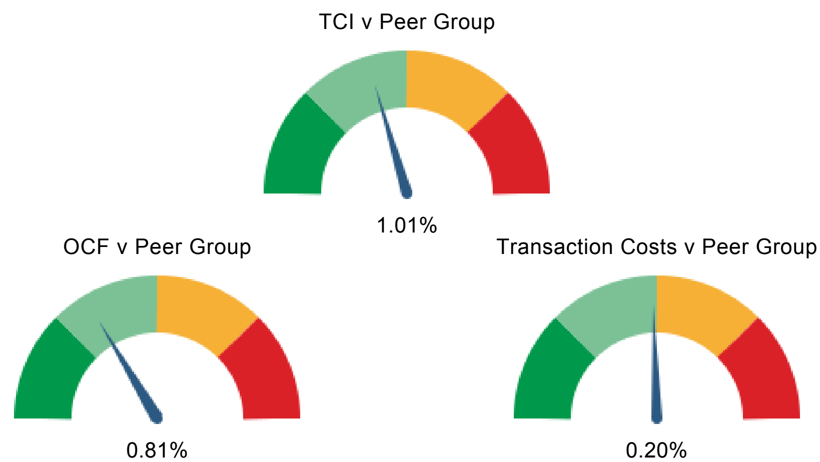
This is an equity based fund investing largely in UK listed companies. The fund is exposed to moves in the UK stock market, which can exhibit significant volatility.

At a fund level this is a fairly well diversified strategy, but the manager does not take into account a company's weight within the index when constructing the final portfolio. Therefore, the fund can, at times, look markedly different from the index. Furthermore, this fund sits in the IA UK Equity Income sector and must produce a yield which is 100% of the FTSE All Share index over rolling three year periods in order to remain so; a target which we believe is eminently achievable. That said, the managers will not compromise the investment approach or sacrifice investors' capital to solely meet this criteria.

Value for Money

The fund's ongoing charge figure (OCF) and total cost of investment (TCI) are both slightly below the UK equity income peer group median, therefore, we believe the overall cost structure to be fair and competitive.

Furthermore, following the introduction of MiFID II regulations, asset management firms are now required to disclose all costs and charges related to the running and administration of funds. This can include items outside of the OCF, such as research costs. As a result, Aviva Investors has absorbed the costs associated with its research, which has slightly reduced the overall fee paid by investors. This step is at the discretion of each fund group, but it is one that a significant number of firms have followed.



ESG Integration

Company Assessment	0	1	2+	3
Demonstrable steps are being taken to fully integrate ESG factors into all of the company's investment processes.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
ESG factors are actively considered by the fund's manager as an important part of the investment process, but do not drive the final investment decision.				

Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
☐	☐	☐	☐

Additional Information

Annualised Return	7.22%
Annualised Volatility	20.66%
Max Drawdown	-33.84%
Max Gain	17.44%
Max Loss	-33.16%
Sharpe Ratio	0.29
Sortino Ratio	0.27

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

157.1 pence

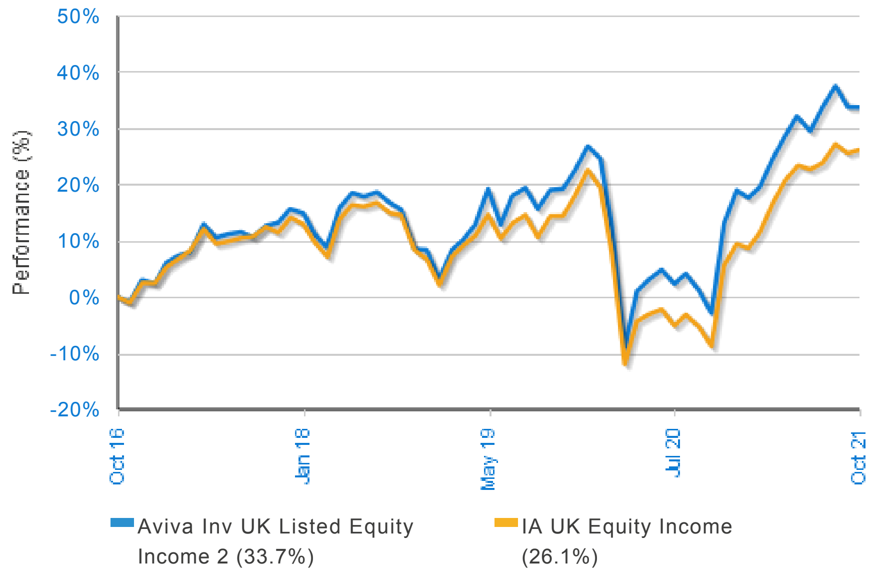
Benchmark

FTSE All Share

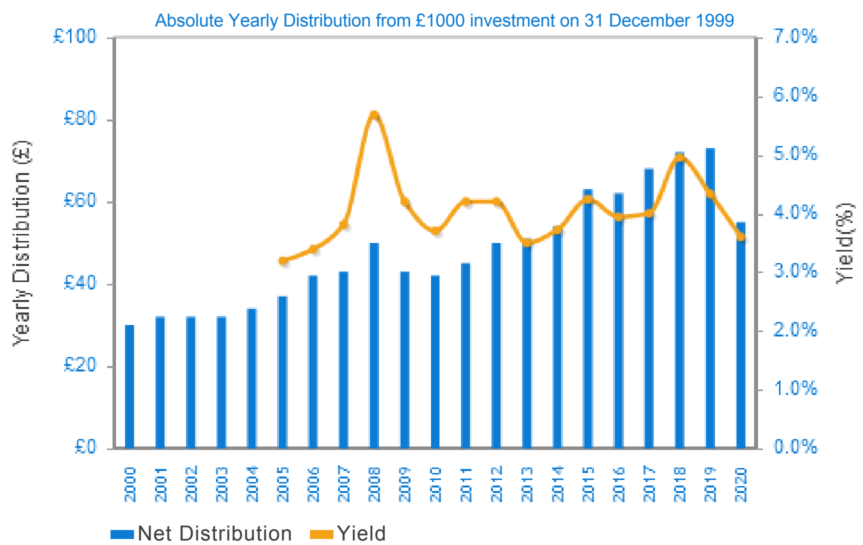
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	32.4	32.7	2
12-24m	-15.1	-17.2	2
24-36m	3.0	-0.2	1
36-48m	4.5	3.4	2
48-60m	10.6	10.6	3

Capital Growth

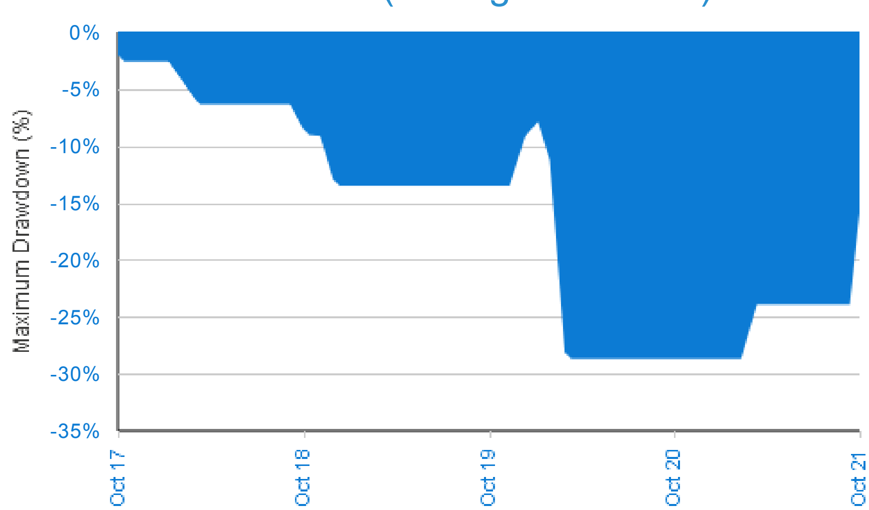


Income



This graph assumes that income is distributed to shareholders and not reinvested.
Yield represents share price fluctuations.

Maximum Drawdown (Rolling 12 Months)



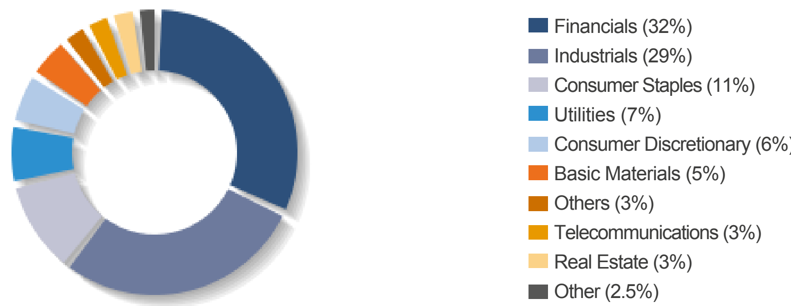
Top Ten Holdings

(Data as at 30 Sep 2021)

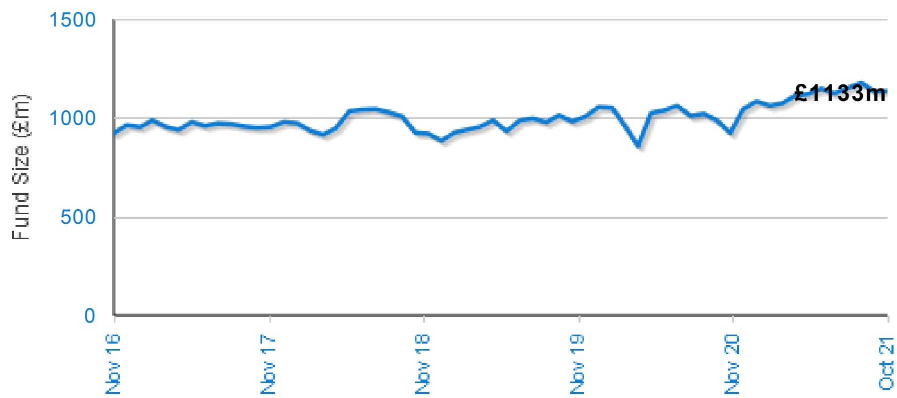
Company Name	%
PHOENIX GROUP HLDGS	4.4
INTERMEDIATE CAPITAL GROUP	3.8
MELROSE INDUSTRIES PLC	3.5
LEGAL & GENERAL GROUP	3.3
ULTRA ELECTRONICS HLDGS	2.8

Sector Breakdown

(Data as at 30 Sep 2021)



Assets Under Management



Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk		●	
Credit Risk			●
Exchange Rate Risk			●
Liquidity Risk			●
Emerging Markets Risk			●
Derivative Risk			●
Manager Risk	●		

Equity Risk
The fund is predominately invested in shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress.

Interest Rate Risk
The fund is an equity fund. Higher interest rates may adversely affect valuations of shares.

Credit Risk
This fund does not have significant exposure to corporate debt.

Exchange Rate Risk
The fund is predominantly invested in domestic assets.

Liquidity Risk
The fund invests in liquid assets and any sale should be possible at close to the prevailing market price.

Emerging Markets Risk
The fund predominantly invests in securities listed by organisations operating in developed markets.

Derivative Risk
The portfolio is predominantly invested in underlying cash securities.

Manager Risk
The manager is seen as a critical element in Square Mile's rating of the fund. Square Mile is likely to downgrade the fund if the manager were to leave.

FE Risk Rating: 107.00

SRRI: 6

Disclaimer