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Aviva Smooth Managed Fund

Q3 2018 performance review and outlook

Executive summary

Investment Objective

The Smooth Managed Fund is designed to deliver growth over the medium to long term, employing a ‘smoothing’ process to shelter your clients from some of the impact of adverse market movements. The fund invests in a broad range of global assets which can change over time as we aim to keep the investment risk in line with a moderately cautious risk profile.

This commentary covers:

- The Smooth Managed performance in Q3 2018
- Our Market outlook
- Portfolio adjustments in Q3 2018.

Performance in Q3 2018

Following the Bank of England rate hike in September the Smooth Managed Fund’s Smooth Growth Rate increased from 5.50% to 5.75% less the fund charge - there have been no price adjustments implemented.

Quarter three got off to promising start with equities posting healthy returns across the board. Sentiment did turn a little negative towards the end of the period with mounting trade war pressures and the contentious Italian budget announcement, but most regions closed the quarter with modest positive gains. Sovereign bond markets struggled however with yields going up resulting in bond values falling.

Overall growth assets delivered a positive return, which helped to recover the lost ground from the beginning of the year. The positive performance was mostly driven by the continuation of impressive US equity returns, which substantially outpaced all the other equity regions, Japanese equities were the other stand out performer. Emerging market equities continued to struggle as trade wars concerns mounted and some country specific issues (most notably in Turkey and Argentina) kept investors cautious. Having reduced both our Emerging market equity and bond positions over the summer the portfolio was less exposed to these regions which benefitted performance.

In the face of a gradual increase to sovereign debt yields our defensive assets held up well delivering relative flat returns. This was in part due to our short US treasuries position and active currency positions. Our uncorrelated assets marginally contributed to performance due to gains made from both risk assets and short developed market duration.

Market outlook

As the global economy enters the fourth quarter of 2018, it remains on track for another year of solid growth. However, compared to last year, the picture has become somewhat more uneven across countries and regions.

As global growth and inflation remains solid, the era of accommodative monetary policy continues to draw to a close. The US is clearly in the lead in that process, having already raised rates eight times (200bps) since the end of 2015. More recently, however, other developed market Central Banks have begun to follow suit and tighten policy.

Although our outlook remains positive, the downside risk over the coming months from increased trade tensions has made us a little more cautious on the near-term for growth assets. With that in mind we have reduced our allocation to growth assets and moderated some of our regional and sector positions. The funds are positioned in a more defensive ‘wait and see’ mode but with fundamentals remaining strong uncertainty in markets may offer us some good opportunities to pick up assets at an attractive price.

Portfolio adjustments in Q3 2018

Growth assets

Reduced our exposure to emerging market equity due to trade war concerns
Considering rising trade war concerns we reduced our emerging market equity exposure and added the proceeds to cash and reduced our UK equity underweight to neutral.

Defensive assets

Added to cash and nominal US treasuries
We reduced our US TIPS position to increase our allocation to nominal US treasuries and cash. The trade had no impact to the level of duration.

Uncorrelated assets

No portfolio adjustments were made to our Uncorrelated assets

Risk mapping

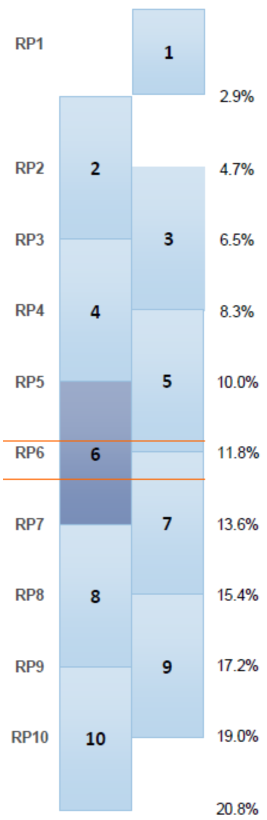
DYNAMIC PLANNER® PROFILED 5

1	2	3	4	5	6	7	8	9	10
Lowest risk	Very low risk	Low risk	Lowest medium risk	Low medium risk	High medium risk	Highest medium risk	High risk	Very high risk	Highest risk

DT Risk Ranges	1	2	3	4	5	6	7	8	9	10
min	0.00%	2.10%	4.20%	6.30%	8.40%	10.50%	12.60%	14.70%	16.80%	18.90%
max	2.10%	4.20%	6.30%	8.40%	10.50%	12.60%	14.70%	16.80%	18.90%	21.00%

RISK RATING 6 defaqto

Risk profile tolerances



Aviva	Growth Assets	Best Fit	Risk Tolerance Score Ranges Risk Comfort/Discomfort Zones Too Much Risk	Marginal	OK Risk	Marginal	Too Little Risk
Smooth Managed Fund	68%	-	< 52	52 - 57	58 - 69	70 - 77	> 77

Important Information

Past performance is not a guide to the future. The opinions expressed are based on Aviva Investors Global Services Limited (Aviva Investors) internal forecasts and should not be relied upon as indicating any guarantee of return from an investment in funds managed by us. Aviva Investors Global Services Limited (Aviva Investors) manage this fund on behalf of Aviva Life Services UK Limited. The value of an investment in this fund and any income from it can go down as well as up. Investors may not get back the original amount invested.

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