Aviva Smooth Managed Fund
Q1 2020 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:
- Smooth Managed Fund Performance in Q1 2020
- Market review
- Market Outlook
- Portfolio adjustments in Q1 2020

Performance in Q1 2020
Smooth Managed Pension Fund’s Smooth Growth Rate is 5.10%, Bond Fund’s Smooth Growth Rate is 4.10%. There was an adjustment on the 9th and 12th March 2020 of -6.72% and -7.10% respectively for the Pension Smooth Managed Fund. The Bond Smooth Managed Fund also adjusted by -4.80% on the 12th March.

Market Review
The positive optimism around the de-escalation of trade tensions between the US and China were quickly dashed once is become apparent that the Coronavirus had escalated from being a remote health issue in Asia to a global pandemic. At present over 20% of the world’s population is in some form of lockdown. Unhelpfully, the virus crisis also coincided with a plunge in oil caused by a Saudi/Russian ‘petropolitical’ spat.

In response to the virus and the expected social and economic knock-on impacts, central banks and governments around the world have promised an unprecedented level of support. This came in the form of low interest rates and cash handouts to companies and individuals alike. In the US and Europe businesses will receive a colossal $8tn, this is roughly equivalent to their last two years of profit. Despite this investment markets capitulated and sold-off sharply, with a ferocity not seen since the 2008 Global Financial Crisis. Developed market government bonds, however, did offer investors a degree of protection.
Market outlook

Despite continued market falls, there are signs that the freefall and worst part of the panic is behind us, even if the death tolls continue to rise sharply. The horrendous jobless claims in the US and elsewhere show that the economic toll is still rippling through the global economy, yet the aggressive policy response, belated as it is, has improved market function and arguably put a safety net in place for financial markets.

At present we are taking a more defensive stance as we believe that the full ramifications of shutting down large parts of the economy have yet to be felt. If we see an equity rally based on hope opposed to a genuine improvement to the economic picture, then we might take the opportunity to sell equities and add more to defensive assets. If, however, we start to see a genuine improvement to the economic picture, with most of the bad news being factored in, we may decide to add risk to the portfolios.

Q1 2020 portfolio adjustments

Growth assets

We reduced exposure to equities across the majority of regions.

We reduced our exposure to Emerging Market Debt (local currency). While the asset class remains an important diversifier, we expect Emerging Market currencies to incur more volatility as they are likely to be impacted by the fall in commodity prices and the reduction in global trade.

Defensive assets

To build more protection into the funds we added to US Treasuries. We continue to have confidence in this asset given the Fed’s aggressive support package to keep yields low, for shorter-term and longer-term debt. Moreover, in March we saw yields rise due to the impact of forced sellers (i.e. investors who need to sell liquid assets to raise cash). This gave us an attractive entry point.

We added to Japanese Yen. This is a classic defensive currency and another way to build more protection into the funds.

Uncorrelated assets

No changes

Risk mapping

<table>
<thead>
<tr>
<th>DT Risk Ranges</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>min</td>
<td>0.00%</td>
<td>2.10%</td>
<td>4.20%</td>
<td>6.30%</td>
<td>8.40%</td>
<td>10.50%</td>
<td>12.60%</td>
<td>14.70%</td>
<td>16.80%</td>
<td>18.90%</td>
</tr>
<tr>
<td>max</td>
<td>2.10%</td>
<td>4.20%</td>
<td>6.30%</td>
<td>8.40%</td>
<td>10.50%</td>
<td>12.60%</td>
<td>14.70%</td>
<td>16.80%</td>
<td>18.90%</td>
<td>21.00%</td>
</tr>
</tbody>
</table>

Aviva: Public
The Mappings and Marks and all Intellectual Property Rights and other rights in them, including any modifications to the same, shall at all time remain the property of FinaMetrica or FinaMetrica’s licensors.

© FinaMetrica Pty Ltd. Risk tolerance scores were mapped to the funds’ strategic asset allocations as at July 2019. The mappings are only for use by financial advisors licensed to use FinaMetrica’s risk profiling system, are for guidance purposes only and do not constitute financial or investment advice. Financial advisors must satisfy themselves that the funds’ current asset allocations reflect the risk/return expectations of the funds when mapped. Aviva does pay FinaMetrica for the mappings in the table however these mappings are calculated independently by FinaMetrica.
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.