Smooth investing made easy

Welcome to the Aviva Smooth Managed Fund

The Smooth Managed Fund is designed to deliver growth over the medium to long term, employing a ‘smoothing’ process to shelter you 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.

Help to defy uncertainty… …one step at a time

Economic, geopolitical and market changes occur all the time in a 24 hour cycle of news and information. If you’d like to invest in stock markets, but would also like to make sure that you have some protection against adverse market conditions, you’ve come to the right place.

This guide gives you information about how the fund works. If you’re new to investing or to the world of ‘smoothed’ investments, we’ll take you through it one step at a time.

More information

For more information, please read this guide with:

- The Aviva Smooth Managed Fund: Monthly Factsheet
- The Key Features Document for your product

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Step 1

Recognise the difference between saving and investing

The big difference between saving and investing is the level of risk. ‘Saving’ usually refers to cash deposits in things like bank and building society accounts. Left in a savings account, your cash will grow in line with the rate of interest on your deposit. All you have to worry about is rising prices, because inflation can erode the value of your savings.

Investing is different, because it involves putting money into assets that can go down, as well as up, in value. Different kinds of assets may rise or fall in value more frequently than others, and by greater or lesser amounts. If you have decades to invest, perhaps for your retirement, you might have more of an appetite for risk. In this case, equities – another term for company shares – could appeal to you. If you have only a few years to go before you retire, you might adopt a more cautious approach and concentrate your investments on assets that are typically less volatile in nature.

However you choose to do it, investment carries more risk than saving, because stock markets rise and fall in value each trading day. There’s always the chance that the value of investments could go down, which may mean you end up getting back less than you invested.

Step 2

Understand how stock markets work

Here’s a graph of the UK’s FTSE 100 stock market index, from 1985 to 2019. Often called the ‘Footsie’, it’s the one you hear and see mentioned on most business web pages and on television and radio. It measures the UK’s 100 largest companies by market value and is a useful barometer of one aspect of the nation’s economic health.

The first thing you’ll notice is the shape: it resembles a mountain range with peaks and deep valleys. Steep ravines follow several of the peaks, and then from the valley floor it rises to hit new highs.

Do investors like it when the value of their stake is suddenly worth less than it was the day before? It’s unlikely, but it goes with the territory.
Taking the long view, the general direction has been up, but the problem is that nobody really knows when, where or how investment trends begin or end. There is no secret formula that can predict the future direction of stock markets. Even with sophisticated information technology and computer modelling, predicting when markets will rise or fall – ‘market timing’ – will always be difficult.

One of the biggest risks of market timing is missing out on the market’s best-performing cycles. How could this happen? If you look closely at the graph, you can see several occasions when the market has suddenly dived and then powered ahead.

Let’s suppose investors believe that the market will go down and switch their money to less risky assets. Then, the market takes off. In this case, investors incorrectly time the market and miss the boat.

So how do you smooth out those peaks and troughs? The first way is to pool your money with other investors which creates a bigger fund which in turn allows you to buy in to a broader range of assets. We’ll cover this in the next two steps.

Step 3

Get to know your fund

The Aviva Smooth Managed Fund is a fund that pools your money together with other investors and is used to buy a wide range of investments such as equities, bonds and property. The fund is divided into units of equal value and the price of these units determines the number of units you receive when you invest. An advantage of investing in a professionally-managed fund with other people is that you don’t have to worry about daily investment decisions and the paperwork that goes with them; it’s all in one place.

This fund is for investors who are prepared to leave their money invested over the medium to long term (typically five years or more) and take a moderately cautious degree of risk in order to increase the chance of achieving a more attractive return. A typical investor will:

- be prepared to take a moderately cautious degree of risk with their investment in return for the prospect of improving longer term performance. Higher risk funds will generally invest more in equities and property to aim for a better return, but tend to go up and down in value more than a medium risk fund. Lower risk funds will typically invest more in bonds and cash/money markets which will help to reduce the ups and downs of their investment but may give lower long term returns
- know that the value of an investment can go down as well as up and that they may get back less than they invested
- prefer to spread risk by investing in a wide range of assets and see their money typically be invested more in shares and/or property than fixed interest assets
- accept that having a broad spread of assets may limit the potential returns but should help to minimise the fluctuations in value
- be prepared to stay invested in the Fund for at least 5 years.

Important information

1. The value of your investment is not guaranteed and can go down as well as up. You could get back less than you invested.

2. Switches in and out of the Smooth Managed Fund are limited to one in each calendar quarter (ie 1 January – 31 March, 1 April – 30 June, 1 July – 30 September, 1 October – 31 December).

3. You cannot invest more than £1,000,000 into this fund, either in one payment or over a series of payments.

4. The fund management charge for the Pension Fund is 0.65% per year (approximately 54p per month for each £1,000 invested). The extra management charge for the Life Fund is 0.46% per year (approximately 38p per month for each £1,000 invested). Your adviser will give you details of any product or adviser charges associated with investing in the Smooth Managed Fund.
## Risk Warnings

These highlight the risks this fund can be exposed to at any given time.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td><strong>A – General</strong></td>
<td><strong>Investment is not guaranteed:</strong> The value of an investment is not guaranteed and can go down as well as up. You could get back less than you have paid in.</td>
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<tr>
<td></td>
<td><strong>Specialist funds:</strong> Some funds invest only in a specific or limited range of sectors and this will be set out in the fund’s aim. These funds may carry more risk than funds that can invest across a broader range or a variety of sectors.</td>
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<td></td>
<td><strong>Suspend trading:</strong> Fund managers often have the ability, in certain circumstances, to suspend trading in their funds for as long as necessary. When this occurs, we will need to delay the ‘cashing in’ or switching of units in the relevant fund. You may not be able to access your money during this period.</td>
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<td></td>
<td><strong>Derivatives:</strong> Derivatives are financial contracts whose value is based on the prices of other assets. Most funds can invest in derivatives for the purpose of managing the fund more efficiently or reducing risk. Some funds also use derivatives to increase potential returns, known as ‘speculation’. For those funds we apply an additional risk warning (see Risk F).</td>
</tr>
<tr>
<td><strong>B – Foreign Exchange Risk</strong></td>
<td>When funds invest in overseas assets the value will go up and down in line with movements in exchange rates as well as the changes in value of the fund’s holdings.</td>
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<tr>
<td><strong>C – Emerging Markets</strong></td>
<td>Where a fund invests in emerging markets, its value is likely to move up and down by large amounts and more frequently than one that invests in developed markets. These markets may not be as strictly regulated and securities may be harder to buy and sell than those in more developed markets. These markets may also be politically unstable which can result in the fund carrying more risk.</td>
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<tr>
<td><strong>D - Smaller Companies</strong></td>
<td>Where a fund invests in the shares of smaller companies, its value is likely to move up and down by large amounts and more frequently than one that invests in larger company shares. The shares can also be more difficult to buy and sell, so smaller companies funds can carry more risk.</td>
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<tr>
<td><strong>E – Fixed Interest</strong></td>
<td>Where a fund invests in fixed interest securities, such as company, government, index-linked or convertible bonds, changes in interest rates or inflation can contribute to the value of the investment going up or down. For example, if interest rates rise, the value is likely to fall.</td>
</tr>
<tr>
<td><strong>F – Derivatives</strong></td>
<td>Derivatives: Derivatives are financial contracts whose value is based on the prices of other assets. The fund invests in derivatives as part of its investment strategy, over and above their use for managing the fund more efficiently. Under certain circumstances, derivatives can result in large movements in the value of the fund and increase the risk profile, compared to a fund that only invests in, for example, equities. The fund may also be exposed to the risk that the company issuing the derivative may not honour their obligations, which could lead to losses.</td>
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Welcome to professional investment management

Aviva Investors is a global asset manager, investing over £337 billion on behalf of its customers (as at 31/03/2019). It’s a large organisation with the resources to develop new investment opportunities for investors.

Aviva Investors manage risk with discipline and rigour. Teams of professionals focus on creating funds which are built to last, such as the Aviva Smooth Managed Fund.

Risk Description

G - Cash/Money Market Funds
These are different to cash deposit accounts and their value can fall. Also, in a low interest rate environment the product or fund charges may be greater than the return, so you could get back less than you have paid in.

H - Property Funds
The fund invests substantially in property funds, property shares or direct property. You should bear in mind that:
- Properties are not always readily saleable and this can lead to times in which clients are unable to ‘cash in’ or switch part or all of their holding and you may not be able to access your money during this time
- Property valuations are made by independent valuers, but are ultimately subjective and a matter of judgement
- Property transaction costs are high due to legal costs, valuations and stamp duty, which will affect the fund’s returns.

I - High Yield Bonds
The fund invests in high yield (non-investment grade) bonds. Non-investment grade bonds carry a higher risk that the issuer may not be able to pay interest or return capital. In addition, economic conditions and interest rate movements will have a greater effect on their price. There may be times when these bonds are not easy to buy and sell. In exceptional circumstances, we may need to delay the ‘cashing in’ or switching of units in the fund and you may not be able to access your money during this period.

J - Reinsured Funds:
Where a fund invests in an underlying fund operated by another insurance company through a reinsurance agreement, if the other insurance company were to become insolvent, you could lose some or all of the value of your investment in this fund.

Diversification really makes sense

Welcome to diversification. Spreading an investor’s money across a range of different assets can help reduce the impact of the volatility associated with owning a personal portfolio of shares or other asset types. The Aviva Smooth Managed Fund uses assets from around the world including the US, Europe and Asia, spreading the risk of your investment even further.

Put simply, this means holding a wide range of investments in order to limit your dependence on any one company, property or asset class. Another potential advantage is that losses in one asset class could be offset by gains in another. There is no guarantee that this strategy will work all of the time, but it certainly helps and it’s less risky than putting all your investment eggs in one basket.
Understand where we invest your money

Our Aviva Smooth Managed Fund has a wide spread of assets, so if one or more assets perform poorly, others can make up for it.

Here is a guide to the assets we hold in the Aviva Smooth Managed Fund:

- Overseas equities
- Cash/money markets
- Bonds
- Property
- Alternative Assets
- UK equities

More information
See the Fund Fact Sheet for the up to date assets and proportions in each of our Smooth Managed Funds.

As you can see, these fall into several different types of assets. There’s more about each type of asset opposite.

Please note that although your money is invested in the fund, you do not own any of the fund’s underlying assets. For example, you won’t receive a dividend from shares, or rental income from property, held by the fund. These are reflected in the value of the fund itself.

Equities
Equities is simply another word for company shares. Investors who own equity in a company own a part of it and are entitled to a share of the company’s profits by receiving dividends. They also have a share in the value of the company’s assets, through its share price. Share prices follow the fortunes of the company, through both good and bad times.

Bonds
Bonds are loans to a government or a company for a set period, returning a fixed income. Those issued by companies are called corporate bonds. Bonds issued by the UK government are known as gilts. Corporate bonds usually carry a higher rate of interest than government bonds because they are riskier. There’s an active market: bonds can be bought and sold like equities.

Property
As an investment asset class, property usually means investing in commercial property such as offices, retail, leisure and industrial developments. Successful maintenance, repairs, refurbishment, and tenancy arrangements can all add value by enhancing rental income and capital value.

Alternative Assets
These are funds such as target return funds, which can invest in assets from around the world and aim to provide a specific outcome for customers - for example, targeting positive annual returns of over and above the Bank of England base rate over a rolling three-year period whether markets rise or fall.

Cash/money markets
Cash includes short-term deposits such as a bank or building society account. Money market securities are investments that governments, major banks and other institutions issue to generate cash.

Although less risky than other asset classes, there could be circumstances where these investments fall in value, for example, if an organisation defaults. Their value could also be eroded over time due to the effects of fund charges, product charges and inflation.
How smoothing works

So far we’ve covered how funds, diversification and professional management can make investing money easier. Now here’s something different: ‘smoothing’.

Smoothing is designed to level out the peaks and troughs of stock markets we covered in Step 2.

The Aviva Smooth Managed Fund aims to make investing in a wide spread of assets less bumpy than it might be. To help you understand how it works, here are some terms we’ll be using and what they mean:

<table>
<thead>
<tr>
<th>Smooth Managed Fund</th>
<th>The fund’s assets, primarily equities and bonds. We value these regularly. You can find more information in our monthly fund factsheet.</th>
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</thead>
<tbody>
<tr>
<td>Unsmoothed price</td>
<td>The value of assets divided by the number of units in the Smooth Managed Fund.</td>
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<tr>
<td>Smoothed price</td>
<td>This is the price you pay to buy and sell units in the Aviva Smooth Managed Fund.</td>
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<tr>
<td>Smooth Growth Rate</td>
<td>This is the rate at which the Smoothed price will normally increase. For the Pension Fund, the Smooth Growth Rate is equal to the Bank of England Base Rate + 5% per year. For the Life Fund, the Smooth Growth Rate is equal to the Bank of England Base Rate + 4% per year.</td>
</tr>
<tr>
<td>Fund price adjustment</td>
<td>This is what happens when there is a 6.5% or more difference between the Smoothed price and the Unsmoothed price. We automatically adjust the Smoothed price so that the difference is only 1.5%.</td>
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</table>

In simple terms, we smooth out some of the ups and downs of typical stock market investing, but there may be times when we have to adjust the price of the Fund to bring it more in line with the value of assets to ensure we’re offering you a fair price. We show you how this works in practice on the next page.

Important information

1. The fund does not target the Smooth Growth Rate and may earn more or less than this over any time period.
2. Fund Price Adjustments can be applied at any time and you should understand that a negative or positive adjustment of 5% or more could be applied to your investment soon after investing, or before you take your money out of the fund.
3. For the Pension Fund, the Smooth Growth Rate will never be less than 5% or more than 10%. For the Life Fund, the Smooth Growth Rate will never be less than 4% or more than 9%. The return you get from the Smooth Managed Fund may be more or less than these limits as Fund Price Adjustments also affect your return.
This chart illustrates how smoothing works – it is not based on any time period or actual investment performance.

How does this work in practice? Each business day the Smoothed price is compared to the Unsmoothed price which will rise and fall with market conditions.

If the difference in price is 6.5% or more in either direction then an adjustment is made to the Smoothed price, to bring it within 1.5% of the Unsmoothed price.

Let’s imagine two scenarios: one where markets have fallen and one where they have risen. Both situations affect the value of the assets in the Aviva Smooth Managed Fund.

Firstly let’s imagine the Smoothed price was 92p and the Unsmoothed price was 100p, a gap of 8%. In this case, because the difference is more than 6.5%, we adjust the Smoothed price to 98.5p so that the gap is reduced to 1.5%. If you had £20,000 in the Fund before the adjustment, it would be worth £21,413 after the adjustment.

In the second scenario, let’s imagine the Smoothed price was 108p and the Unsmoothed price was 100p, also a gap of 8%, but this time the Smoothed price is greater than the Unsmoothed price. In this case, because the difference is more than 6.5%, we adjust the Smoothed price to 101.5p so that the gap is reduced to 1.5%. If you had £20,000 in the Fund before the adjustment, it would be worth £18,796 after the adjustment.

Important information

1. Smoothing means that the price you get may be more or less than the price of the assets held in the fund.

2. Smoothing will protect you against falls in asset values of up to 6.5%. Your investment can fall in value if assets fall by more than 6.5%.

Smooth price reset – to protect customers

In extreme circumstances we may have to reset the smoothing process to protect customers invested in the Aviva Smooth Managed Fund. This is likely to be when there is a large volume of money entering or leaving the fund. When this happens, the Smoothed price of the fund will be immediately adjusted so that it is equal to the Unsmoothed price. After this has happened, the Smoothed price will continue to grow in line with the Smooth Growth Rate.
Relax and watch it work

The Aviva Smooth Managed Fund offers a more relaxed approach to investing. Smoothing has the potential to take some of the volatility out of stock markets. As it’s a fund that pools your money with other investors’, it means you won’t be alone. You can spread the risk by diversifying, through investing in different assets from across the world. Professional investment managers do the hard work for you, so you can feel relaxed about investing. It’s all in one fund, from a company with £337 billion under management.