

# Resilience through uncertainty

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Aviva Investors Global High Yield

Josh Panton, Head of Credit Investment Specialists

June 30, 2022

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It is not to be distributed to or relied on by retail clients.

# Building resilience for long term results

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## Challenge

Pace of monetary  
policy tightening

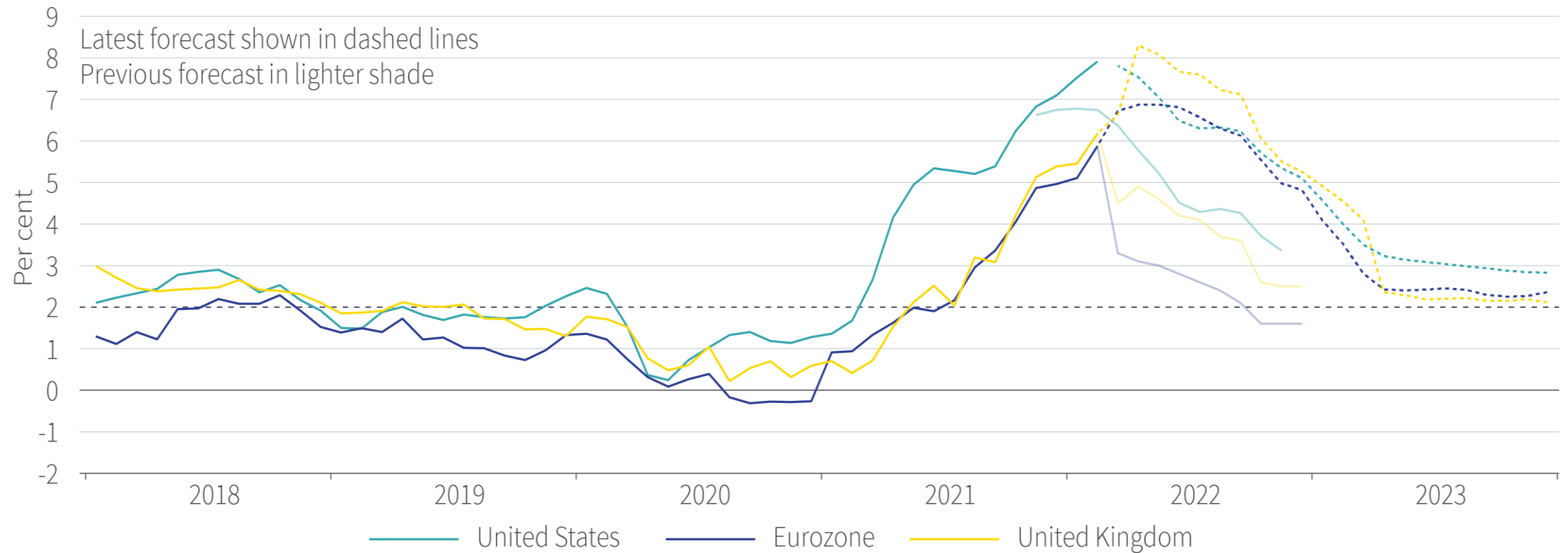
Slowing growth

Navigating volatility



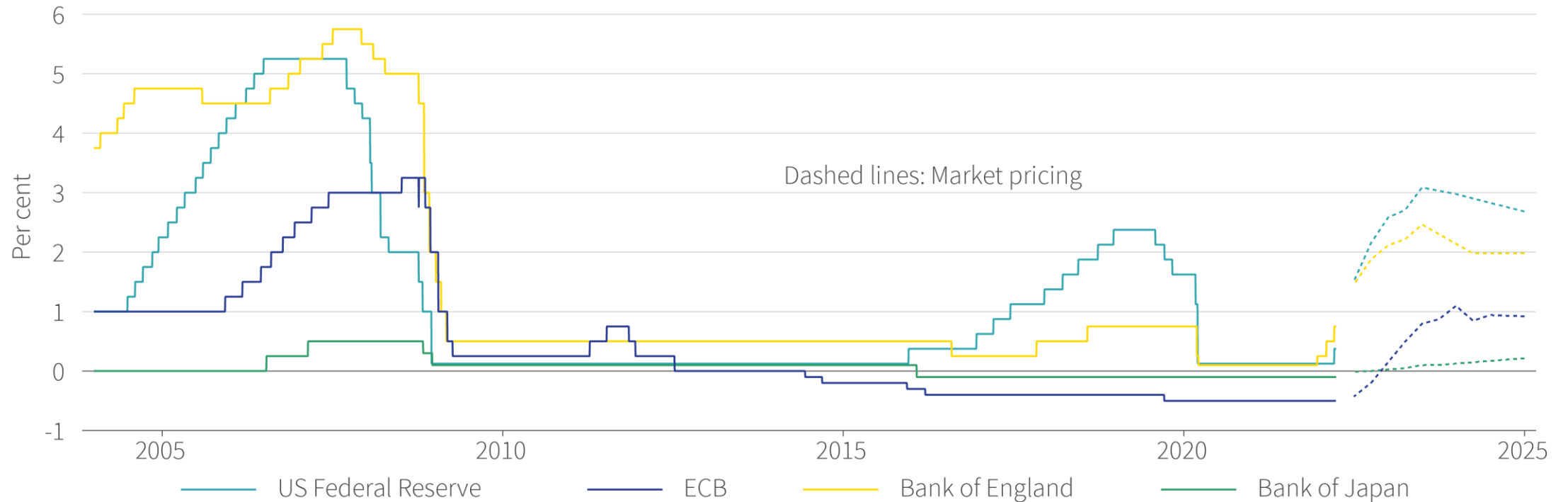
# CPI inflation projections higher for longer

## Inflation highest since 1982



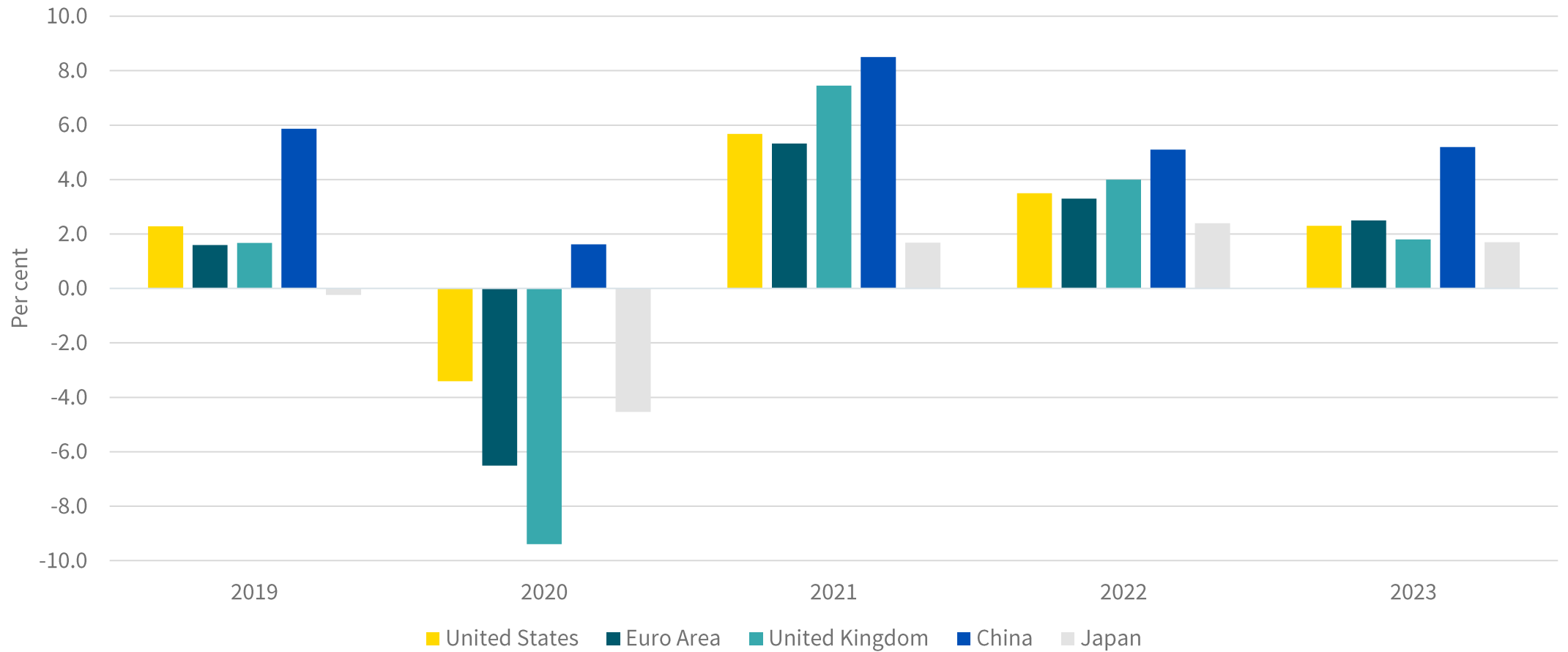
Source: Aviva Investors, Macrobond as at 24 March 2022

# Market expectation for policy rates: tighter policy required



Source: Aviva Investors, Macrobond as at 24 March 2022

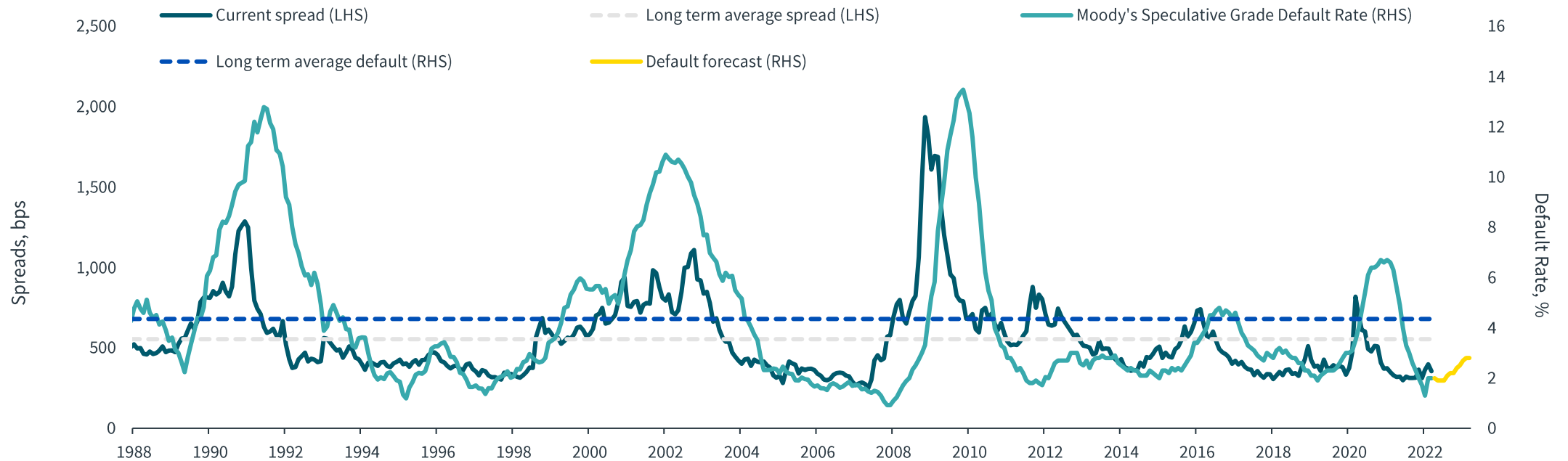
# GDP growth projections slowing, but not stalling



Source: Aviva Investors, Macrobond as at May 19, 2022

# Default rates still compressed

## The relationship between default rates and spreads



**Past performance is not a guide to future returns. The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.**

Source: Moody's, Barclays as of March 31, 2022.

The illustration of the Global HY 2% Index Spread and the Average Spread are obtained from BRS Aladdin. Indexes are unmanaged, do not reflect fees and expenses and are not available for direct investment. For index definition, see appendix. The Issuer weighted Global Speculative Grade Default Rate is obtained from Moody's and involves historical data dating back to 31/1/1988. The default forecast is provided by Moody's for the period from 31/08/2021 to 31/08/2022. The default forecast is hypothetical, does not represent actual data and is not a guarantee of future results. Actual results may vary significantly. This information is based on macroeconomic and index constituent information of which the results may or may not be realized and is subject to risk.

# Building resilience for long term results

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## Opportunity

Short duration  
global high yield

Changing market composition

Valuations and income



# Low interest rate sensitivity

## Low correlation to other asset classes

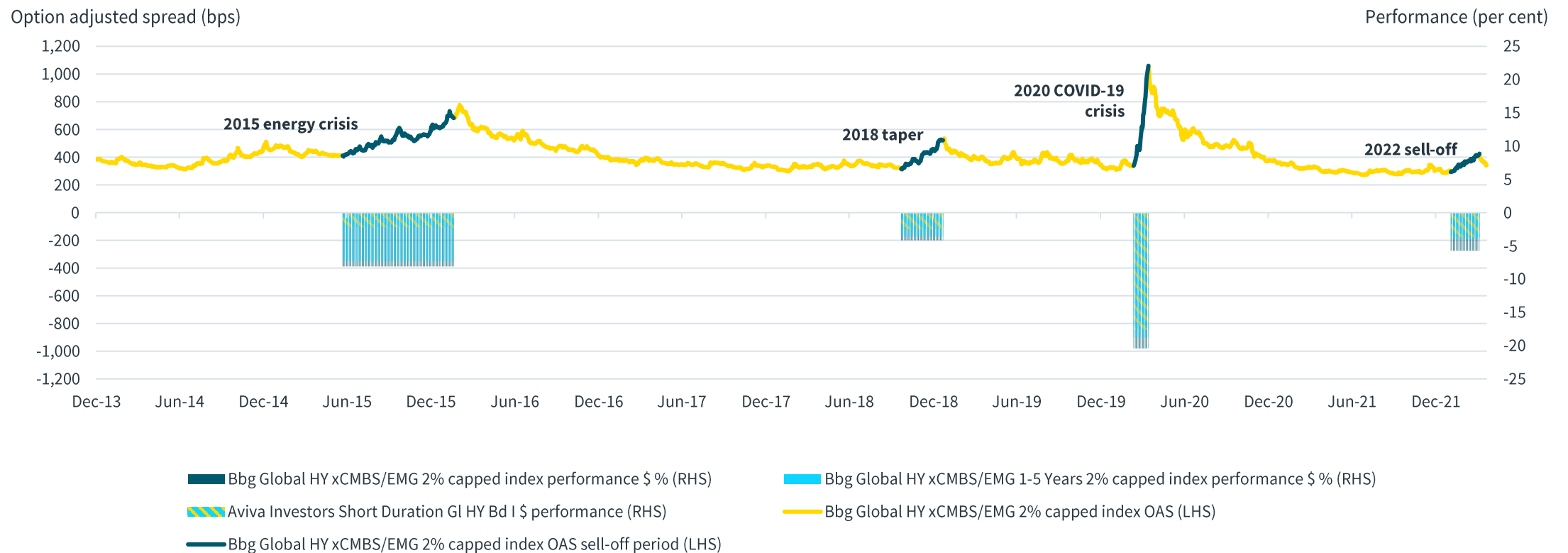
	US Treasuries (1-5 years)	US Treasury	G7 Treasury	US IG Credit (1-5 years)	Global IG Corporate	Global HY (1-5 years)	Global HY	EM HC Agg	S&P 500	Russell 2000
US Treasuries (1-5 years)	1.000									
US Treasury	0.906	1.000								
G7 Treasury	0.779	0.910	1.000							
US IG Credit (1-5 years)	0.508	0.478	0.550	1.000						
Global IG Corporate	0.298	0.361	0.445	0.854	1.000					
Global HY (1-5 years)	-0.229	-0.219	-0.053	0.647	0.725	1.000				
Global HY	-0.140	-0.125	0.020	0.682	0.779	0.982	1.000			
EM HC Agg	0.152	0.163	0.289	0.787	0.855	0.807	0.844	1.000		
S&P 500	-0.296	-0.283	-0.177	0.337	0.525	0.712	0.741	0.550	1.000	
Russell 2000	-0.333	-0.360	-0.255	0.317	0.439	0.724	0.726	0.469	0.858	1.000

For illustrative purposes. Note: 10 year data. Source: Bloomberg, as at March 31, 2022.



# Weathering the spread widening

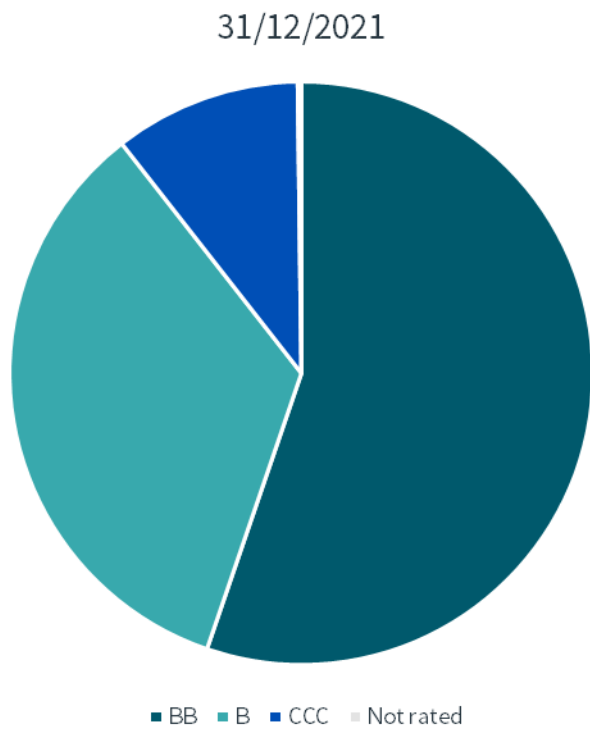
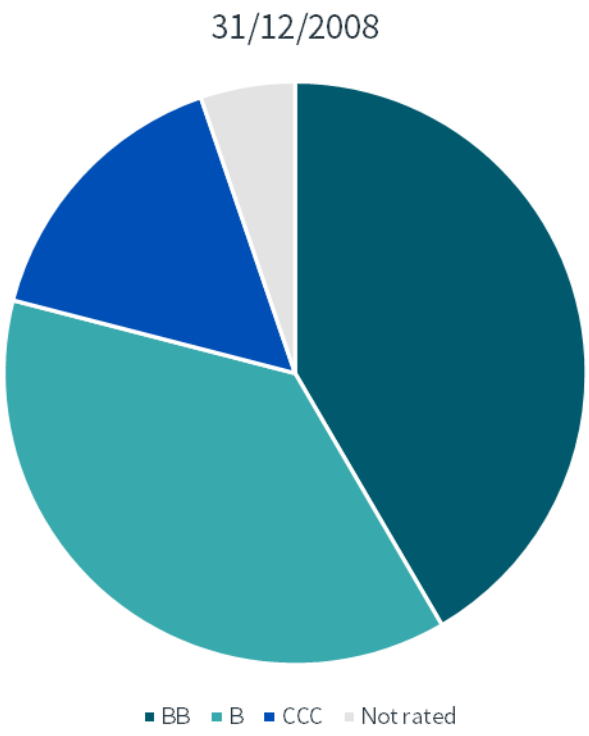
## Recent history suggests SDGHY can weather spread-widening events better than broad high-yield debt



For illustrative purposes. Past performance is not a reliable guide to future performance. Performance shown is net of fees. Source: Bloomberg. Data as at March 31, 2022.

# A changing market

The index is made of more BBs and fewer CCCs than during the GFC



Source: Blackrock Aladdin, as at June 16, 2022. Benchmark shown is the Bloomberg Global High Yield xCMBS xEMG 2% capped index, hedged to USD.

# Valuations are increasingly attractive



Source: Bloomberg, as at June 16, 2022. Benchmark shown is the Bloomberg Global High Yield xCMBS xEMG 2% capped index, USD hedged.

# Global High Yield Scenarios

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Default rate	6%	3.5%	2%	1.5%
Hypothetical recovery	30%	40%	45%	55%
Spread change, bps	+300	+50	+0	-150
Treasury change, bps	-150	+50	+0	+75
<b>Hypothetical return (SDGHY)</b>	<b>-1.1%</b>	<b>1.9%</b>	<b>6.7%</b>	<b>7.7%</b>
<b>Hypothetical return (GHY)</b>	<b>-3.3%</b>	<b>0.5%</b>	<b>7.5%</b>	<b>8.8%</b>

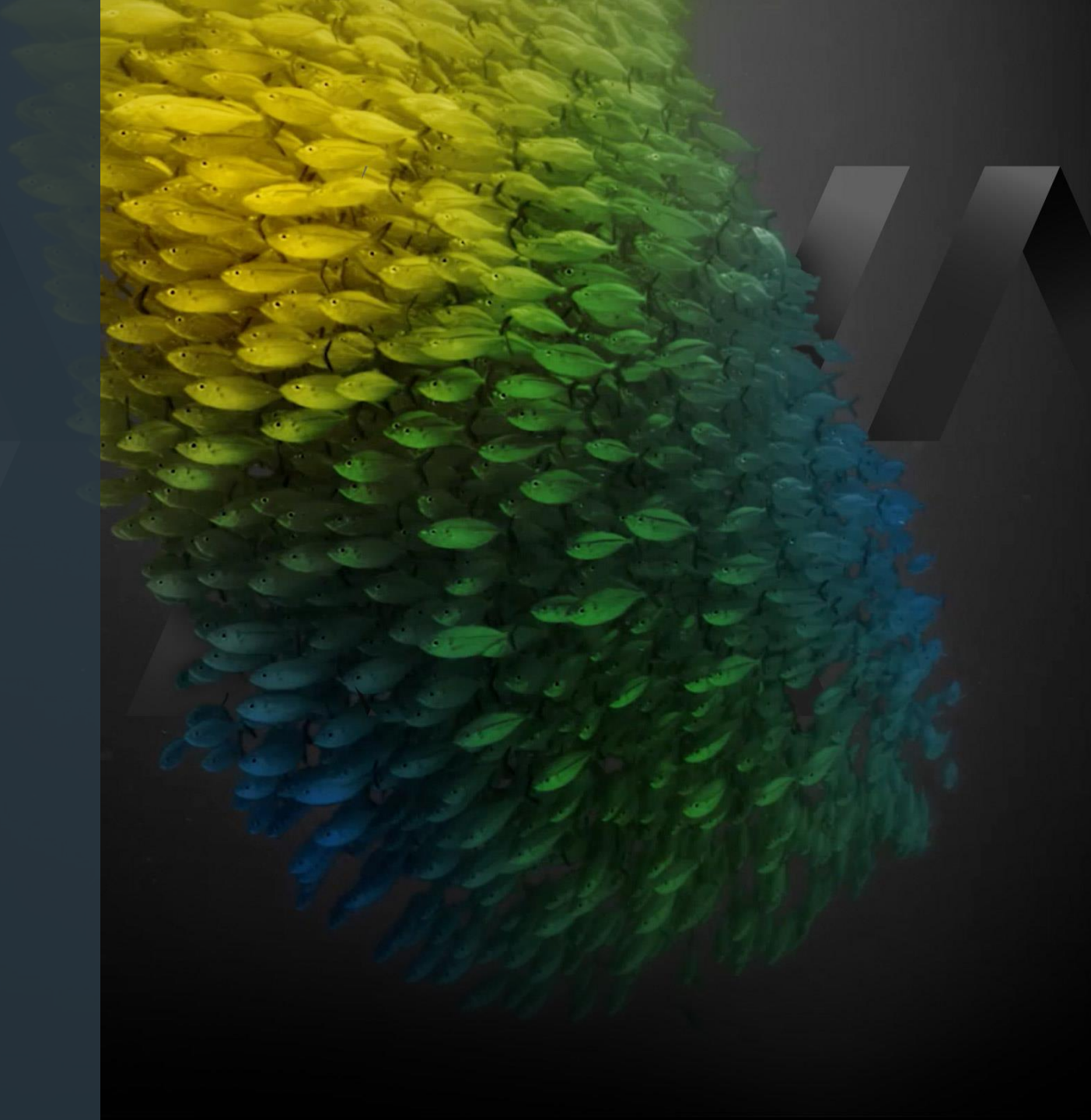
**Forecasts are not a reliable indicator of future returns. The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.**

Source: Aviva Investors, BRS Aladdin, as of June 24, 2022.

The data shown are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Potential returns are based on a number of assumptions, may not be realized and are subject to risk. The methodologies and assumptions used in developing data are: (favourable or unfavourable) economic conditions, volatility, interest rate levels, default rates and other factors. Changes in such assumptions could produce materially different results. A complete explanation of our assumptions used as the basis for this analysis is available upon request. This presentation is not intended to forecast or predict future events. Potential returns are shown before fees, transaction costs and taxes and do not account for the effects of inflation. Management fees would reduce returns, and therefore the probabilities shown. Additional advisory fees, transaction costs, and other potential expenses are not considered and would also reduce returns. No chart, graph or formula can by itself determine which securities an investor should buy or sell. No scenario can predict all potential changes in rates, investor behaviours or economic conditions, or how such changes might affect returns. Investing in the bond market is subject to certain risks including market, interest-rate, issuer, credit, and other risks. High-yield, lower-rated securities involve greater risk than higher-rated securities, and portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. The discussion of risks associated with the high yield bond investment strategy is not intended to set forth an exhaustive list of the risk but only those risks believed to be the most significant by Aviva Investors. The benchmark is the Bloomberg Global High Yield xCMBS xEMG 2% Capped Index. Indexes are unmanaged, do not reflect fees and expenses and are not available direct investment.

# Our approach

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# Our philosophy and style

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We believe that there are pricing inefficiencies in the global high yield market, which can be exploited by a fundamental, long term approach that seeks to maximise risk-adjusted returns through a cycle



## Holistic global portfolio

- Global portfolio construction, no regional sleeves
- Arbitrage opportunities from multi-currency issuers



## Connected thinking

- Global input from across credit
- Culture of collaboration, beyond just credit



## Higher quality

- Aiming for long-term outperformance with less risk
- Tactically allocate to lower quality when rewarded

# Global high yield universe vs. short duration global high yield

Characteristics	Index		Aviva Investors' approach	
	Short duration global high yield	Global high yield	Aviva Investors SDGHY	Aviva Investors GHY
Yield to worst	9.14%	8.64%	8.37%	8.29%
OAS (bps)	572	520	511	492
Duration (years)	2.77	4.20	2.61	3.98
Quality				
BB	51.6%	53.5%	45.2%	50.0%
B	35.3%	34.6%	43.4%	33.0%
CCC	11.2%	10.4%	4.3%	7.7%

**Past performance is not a guide to future returns. The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.**

Source: Aviva Investors and BRS Aladdin as at June 24 2022.

The indices used for the characteristics are the Bloomberg Global High Yield xCMBS xEMG 2% Capped 1-5 Years Maturity Index and the Bloomberg Global High Yield xCMBS xEMG 2% Capped Index. Information provided on this page is for illustrative purposes only. Ratings are created using Barclays' methodology.

# A long track record of avoiding defaults

%	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Aviva Investors Short Duration Global High Yield Default Rate</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.31</b>	<b>0.00</b>	<b>0.18</b>	<b>0.00</b>
Moody's Global Default Rate	2.60	2.10	3.44	4.41	2.90	2.30	3.00	6.60	1.70
Aviva Investors Short Duration Global High Yield Recovery Rate	N/A	N/A	N/A	N/A	N/A	32.60	N/A	0.00	N/A
Moody's Global Recovery Rate	39.7	45.3	37.7	33.8	54.4	47.20	32.0	34.7	54.5
<b>Aviva Investors Short Duration Global High Yield Loss Rate</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.19</b>	<b>0.00</b>	<b>0.18</b>	<b>0.00</b>
Moody's Global Loss Rate	1.57	1.15	2.14	2.92	1.32	1.21	2.04	4.31	0.77

**Past performance is no guarantee of future results. The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.**

Source: PAM and Moody's Note: Information as at 31 December 2021. Recovery rates calculated using the Moody's methodology, using debt price immediately before distressed exchanges or 30 days after non-distressed exchange defaults. Strategy inception 22 September 2008.



# Key risks

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## **Investment risk**

The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.

## **Credit risk**

Bond values are affected by changes in interest rates and the bond issuer's creditworthiness. Bonds that offer the potential for a higher income typically have a greater risk of default.

## **Derivatives risk**

Investments can be made in derivatives, which can be complex and highly volatile. Derivatives may not perform as expected, meaning significant losses may be incurred.

## **Investor in funds risk**

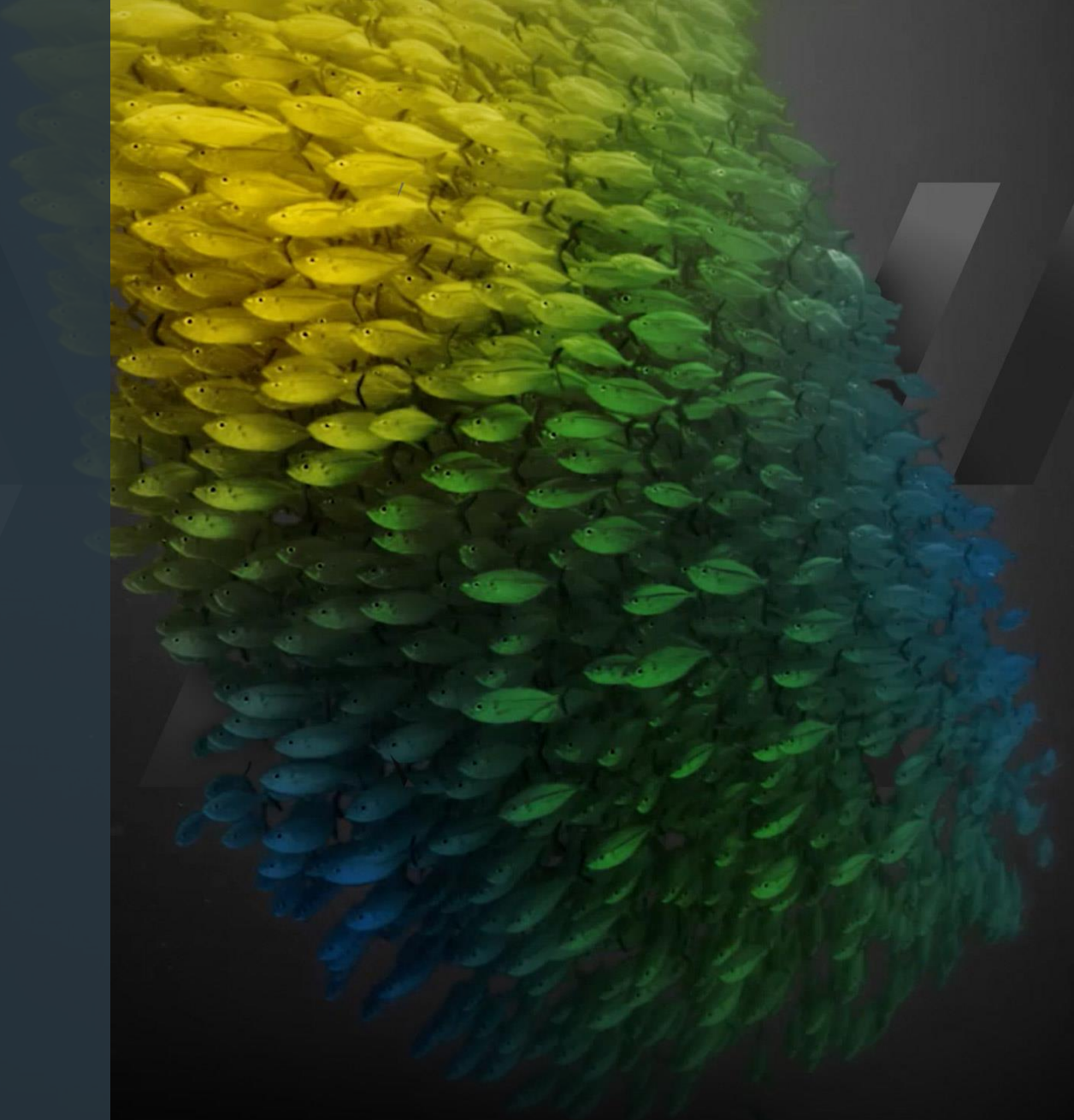
Investments can be made in other funds; this could mean the overall charges are higher.

## **Illiquid securities risk**

Some investments could be hard to value or to sell at a desired time, or at a price considered to be fair (especially in large quantities). As a result their prices can be volatile.

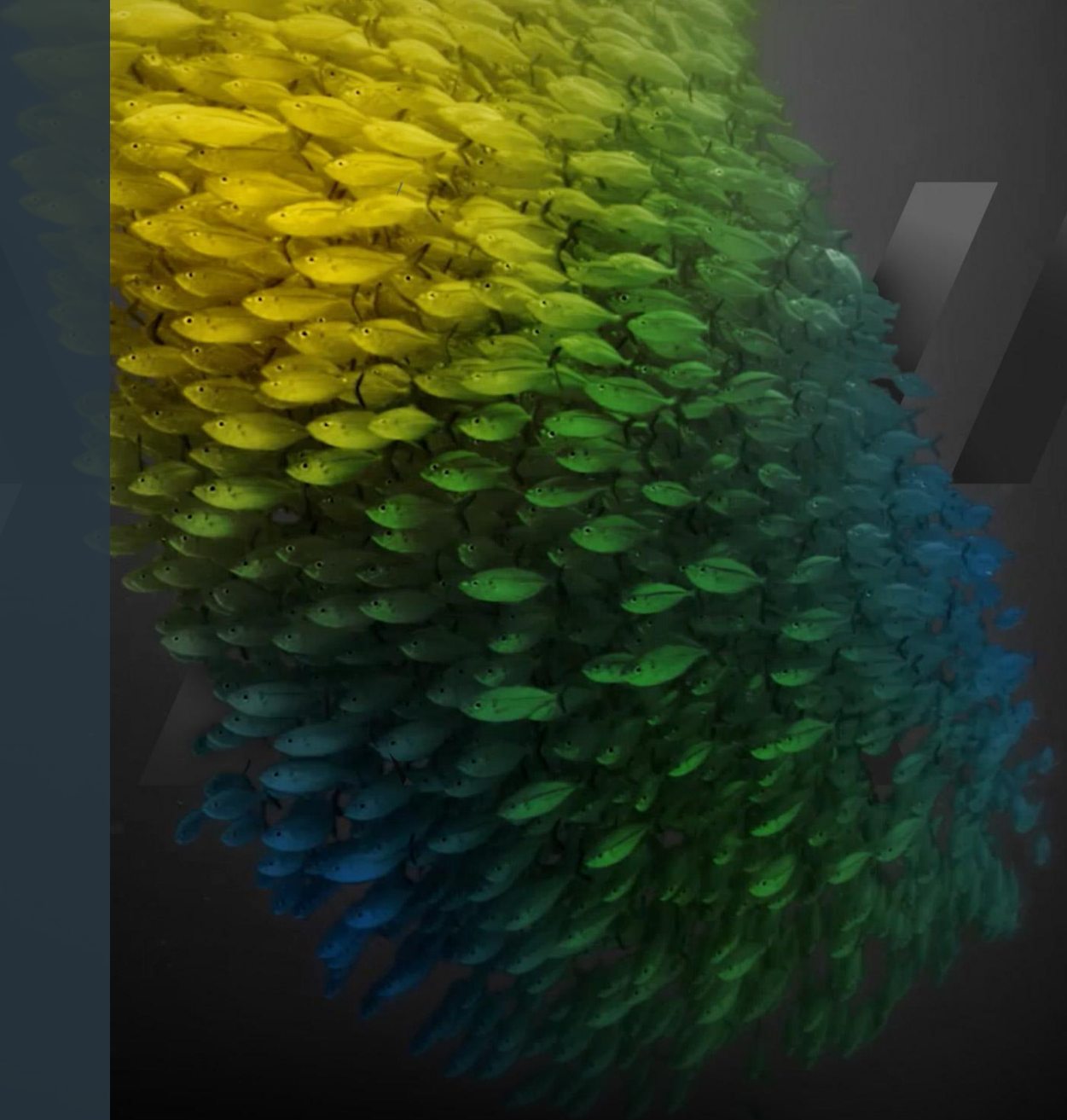
# Thank-you

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# Appendix

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# Biography

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**Josh Pantan**  
Head of Credit Investment Specialists

Joined Aviva Investors in 2015

Joined the industry in 2015

## **Main responsibilities**

Josh leads the Credit Investment Specialist team. His team work closely with the credit portfolio managers and analysts to articulate their investment process, portfolio positioning, and investment performance with clients and consultants globally.

## **Experience and qualifications**

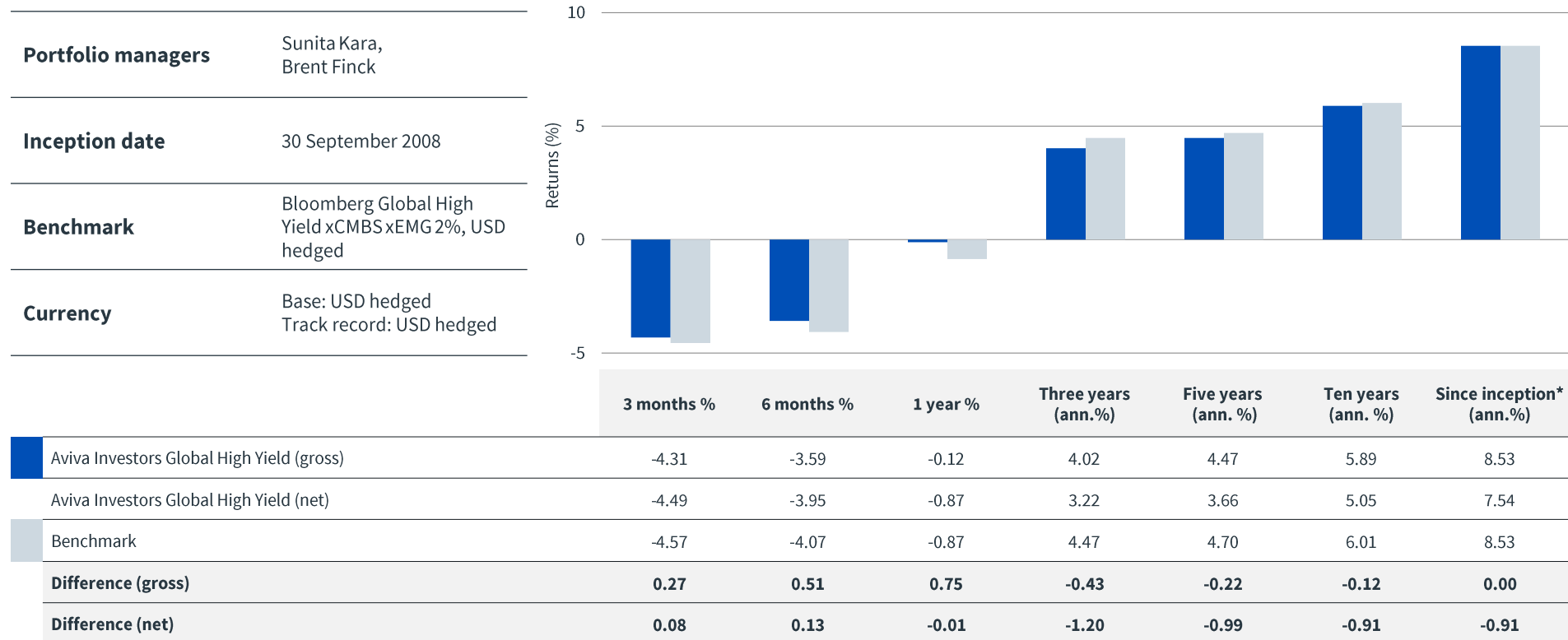
Prior to leading the team, Josh's main focus was as an investment director on our high yield and multi sector credit strategies.

Josh joined the investment industry working on the RFP team at Aviva Investors, before moving onto the investment specialist team. Prior to joining the investment industry, he worked as a client relationship manager for First Advantage.

Josh holds a Master's degree in Banking and Finance, and a Bachelor's degree in Business and Management, and also holds the IMC.

# Global High Yield

## Composite performance vs benchmark



Past performance is not a guide to future returns. The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.

Source Aviva Investors as at March 31, 2022. Mid to mid income reinvested. Performance displayed is for the Aviva Investors Global High Yield Bond composite in USD shown both gross of TER and net of fees. \*Inception 30 September 2008.

# Short Duration Global High Yield

## Composite performance vs benchmark



**Past performance is not a guide to future returns. The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.**

Source Aviva Investors as of March 31, 2022. Mid to mid income reinvested. Performance displayed is for the Aviva Investors Short Duration Global High Yield Bond composite in USD shown both gross of TER and net of fees. \*Inception 01 April 2012.

# Global High Yield Composite

1 October 2008 through 31 December 2021

Year Ended	Total return (%)				Gross Composite Std.			Assets (\$ in millions)	
	Gross of Fees	Net of Fees	Barclays Global High Yield Excluding CMBS and EMS 2% Issuer Cap USD Hedged Index	Deviation 3yr	Benchmark Std. Deviation 3 yr	Composite Dispersion (%)	Composite Accounts	Composite Assets	Total Firm Assets
2021	4.87	4.35	5.02	10.04	9.00	n/a	1	3,736.909	tbc
2020	4.16	3.64	6.35	10.22	9.22	n/a	1	6,188.093	296,642.4
2019	15.76	15.19	14.41	3.96	3.75	n/a	1	5,151.372	272,982.4
2018	-1.69	-2.18	-1.80	3.63	4.31	n/a	1	4,095.589	252,082.5
2017	7.16	6.62	7.82	4.17	5.16	n/a	1	5,017.510	276,562.3
2016	11.50	10.94	15.63	4.51	5.48	n/a	1	5,178.649	258,122.3
2015	1.24	0.73	-2.99	4.54	4.83	n/a	1	3,293.055	253,510.8
2014	3.87	3.35	3.25	4.35	4.44	n/a	1	1,519.818	205,493.6
2013	7.42	6.88	8.15	5.97	6.83	n/a	2	2,682.418	208,223.8
2012	16.55	15.96	18.23	6.79	7.60	n/a	2	2,428.830	234,749.8
2011	6.60	6.07	3.49	9.96	11.51	n/a	1	472.054	222,573.5
2010	16.40	15.82	15.14	n/a	n/a	n/a	2	103.513	222,929.8
2009	52.40	51.64	62.33	n/a	n/a	n/a	1	75.176	229,153.7
2008*	-14.75	-14.86	-18.35	n/a	n/a	n/a	1	22.797	n/a

\*Returns are for the period 1 October 2008 through 31 December 2008.

\*\*Total firm assets awaiting validation

Aviva Investors Global Services claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards.

Aviva Investors Global Services has been independently verified for the periods 1st January 1998 to 31st December 2020. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The firm is defined as Aviva Investors Global Services, which includes all managed assets, excluding direct real estate investments. The firm was redefined as of 31 December 2013, when open ended direct real estate assets were removed from the firm. Closed end direct real estate assets had been excluded from the firm as at 31 December 2010. Therefore, direct real estate assets managed by Aviva are not included within the assets under management value.

Following the acquisition of Friends Life group by the Aviva Group, the assets managed by Friends Life group, and its investment operations, were integrated into Aviva Investors in 2015. Aviva Investors Global Services AUM increased from £131bn at the end of 2014 to £172bn at the end of 2015. Further details are available upon request.

Further to an agreement dated 26 May 2018 between Aviva Investors Global Services Limited and LaSalle Investment Management, Aviva Investor's global indirect real estate investment division was transferred to LaSalle Investment Management with effect from 6 November 2018.

The aim of the funds within this composite is to produce a high total return through high income and capital appreciation by investing primarily in a portfolio of high yield corporate bonds issued by firms domiciled across the globe, mainly North America and Europe. All currency being hedged into USD.

The firm uses derivatives in order to implement the investment strategy. The derivatives include futures, forwards, options and swaps. The derivatives are used for hedging, leverage, protection and diversification. A more complete description of the derivatives used, along with the maximum exposure level is available upon request.

This composite was created on 13/11/2009. With a start date of 30/09/2008.

Returns are presented gross of management fees and other expenses but net of all trading costs. For unitised funds, gross returns are calculated by adding back the Total Expense Ratio (TER) only, or part thereof, to the net return. Actual fees charged are dependent on the mandate and value of client assets. The fee scale for pooled clients ranges from 0.2% p.a. to 1.8% p.a. and for segregated mandates the fee scale starts at 0.5% p.a. All income is taken gross of tax, but net of irrecoverable taxes. Further information is available upon request.

Composite dispersion is calculated using the asset-weighted standard deviation of all portfolios that were included in the composite for the entire year. If the composite includes less than 5 portfolios for the full year no measure of dispersion is shown. Additional information regarding policies for valuing portfolios/funds, and calculating and reporting returns is available upon request. A list and description of all composites is available upon request.

Three-year annualised ex post standard deviation measures for both the composite and benchmark are shown as Composite Risk and Benchmark Risk. This information is not presented when there are less than 36 monthly observations available. This composite is benchmarked against the Barclays Global High Yield Excl CMBS & EMG 2% Cap Hedge USD index. This index which is constructed by Barclays consists of global fixed interest securities excluding the emerging market region and excluding commercial mortgage-backed securities. Any individual issuer concentrations have been capped at 2%.

# Short Duration Global High Yield Composite

1 April 2012 through 31 December 2021

Year Ended	Gross of Fees	Net of Fees	Bloomberg Global High Yield 2% Issuer Capped Bond excluding CMBS and Emerging Markets 1-5 Years USD Hedged Index	Gross Composite Std. Deviation 3yr	Benchmark Std. Deviation 3 yr	Composite Dispersion (%)	Composite Accounts	Composite Assets	Total Firm Assets
2021	4.48	4.01	5.61	8.04	8.52	n/a	1	474,162	18,913.313
2020	3.32	2.86	4.08	8.12	8.67	n/a	1	778.069	33,588.329
2019	10.14	9.65	10.60	2.41	2.99	n/a	1	939.723	18,899.199
2018	0.11	-0.34	-0.01	2.27	3.69	n/a	1	811.115	13,373.404
2017	5.13	4.66	6.73	2.66	4.32	n/a	1	885.555	16,395.610
2016	8.62	8.13	14.11	2.84	4.47	n/a	1	727.479	14,462.332
2015	2.58	2.11	-2.71	2.78	3.69	n/a	1	612.876	9,554.405
2014	1.99	1.53	1.95	n/a	n/a	n/a	1	453.860	9,606.893
2013	6.00	5.51	9.20	n/a	n/a	n/a	1	577.576	11,440.887
2012*	6.69	6.29	10.26	n/a	n/a	n/a	1	577.730	n/a

\*Returns are for the period 1 April 2012 through 31 December 2012.

Aviva Investors Americas ("AIA" or the "Firm") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. AIA has been independently verified for the periods February 1, 2013 through December 31, 2021. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Global Short Duration High Yield Composite has been examined for the periods January 1, 2013 through December 31, 2021. Examinations for periods prior to Firm inception were performed when the composite was owned by Aviva Investors North America. The verification and performance examination reports are available upon request. Past performance is no guarantee of future results. AIA is the GIPS Firm comprised of two separate legal entities, Aviva Investors Americas LLC and Aviva Investors Canada, Inc. AIA excludes its Real Estate Multi Manager & Hedge Fund of Fund assets from its firm definition as those assets are managed using a separate and distinct investment process and are treated as separate and distinct business units. AIA was established as a distinct business entity as a result of the restructuring carried out by Aviva Plc in 2012. The Firm is a registered investment advisor with the Securities and Exchange Commission under the Investment Advisors Act of 1940. The Firm manages a variety of fixed income strategies primarily for institutional and sub-advisory clients. Aviva Investors Americas LLC was established in April 2012 and is a wholly owned subsidiary of Aviva Plc, a UK-based insurance company.

The Aviva Investors Short Duration Global High Yield Composite contains all fee paying, discretionary accounts that seek total return by investing primarily in high yield fixed income securities of issuers in developed markets with an average maturity of less than five years. Fixed income securities are generally considered high yield if they are rated BB+ or lower by Standards & Poor's Rating Services or Ba1 or lower by Moody's Investment Service, Inc., or if unrated, are of a similar quality. The Aviva Investors Short Duration Global High Yield Composite was created on April 1, 2012, and is benchmarked against the customized Bloomberg Global High Yield 2% Issuer Capped Bond Index excluding CMBS and Emerging Markets 1-5 Years Hedged to USD Index. The Bloomberg Global High Yield ex CMBS/EMG 2% Capped Index provides a broad-based measure of the global universe of non-investment grade debt. The index includes high yield bonds from developed nations. Debt issues from countries designated as emerging markets are excluded, as are commercial mortgage backed securities. The index has a 2% issuer cap. The index excludes CMBS and emerging market securities. The market value of excluded securities is redistributed on a pro rata basis to all other issuers' bonds in the index. Securities have a maturity from 1 up to 5 years. Index returns are fully hedged to USD and are not covered by a report of independent verifiers. The financial indices referenced herein are provided for informational purposes only. Financial indices assume reinvestment of dividends but do not reflect the impact of fees, applicable taxes or trading costs which may also reduce the returns shown. A complete list of composite descriptions is available upon request.

Returns are presented gross and net of management fees. Gross-of-fees returns exclude the impact of investment advisory fees. All returns presented are net of commission and other similar fees charged on securities transactions and include reinvestment of net realized gains, interest and dividend income. Performance shown prior to April 1, 2013 represents results achieved by the High Yield Team while it was a part of Aviva Investors North America. A client's actual return will be reduced by investment advisory fees and other costs such as brokerage commissions and equivalents, markups and markdowns, transaction fees, custodial fees, transfer taxes, wire transfer fees, and other fees and taxes charged to brokerage accounts and securities transactions, which are unrelated to the investment advisory fee. Performance is reported in US dollars. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The results portrayed on the receding pages are for the Global Short Duration High Yield Composite. When shown, representative portfolio holdings and portfolio characteristics are specific only to the portfolio shown at that point in time. Representative portfolios are selected by the advisor based on account characteristics that the advisor feels accurately represent the investment strategy as a whole. Other portfolios in the Composite will vary in composition, characteristics, and will experience different investment results.

Internal dispersion is calculated using the asset-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year. For those periods with five or fewer portfolios included for the entire year, dispersion is not presented. The three-year ex-post standard deviation measure is not required until the composite has 36 monthly returns.

The standard fee schedule currently in effect is: 0.50% on all assets. Advisory fees are described in Form ADV Part 2A. Net returns are calculated using the highest tier among the member portfolio fee schedules when this is possible and relevant. In situations when this is not possible or relevant, the maximum fee rate on the ADV will be used.



# Important information

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## **THIS IS A MARKETING COMMUNICATION**

Except where stated as otherwise, the source of all information is Aviva Investors Global Services Limited (“Aviva Investors”). Unless stated otherwise any views, opinions and future returns expressed are those of Aviva Investors and based on Aviva Investors internal forecasts. They should not be viewed as indicating any guarantee of return from an investment managed by Aviva Investors nor as advice of any nature. The value of an investment and any income from it may go down as well as up and the investor may not get back the original amount invested. Past performance is not a guide to future returns.

Where relevant, information on our approach to the sustainability aspects of the strategy and the Sustainable Finance disclosure regulation (SFDR) including policies and procedures can be found on the following link: <https://www.avivainvestors.com/en-gb/capabilities/sustainable-finance-disclosure-regulation/>

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