Protect your portfolio

Aviva Investors Multi-Strategy Target Income

In today's distorted financial market we think it is especially important that investors look outside traditional stocks and bonds for their income.

PETER FITZGERALD
Fund manager, Aviva Investors Multi-Strategy Target Income

Earning sufficient income, without taking an unacceptable amount of risk, is not straightforward in a world where bond yields and annuity rates are so low. While the US Federal Reserve raised interest rates for the first time since 2006 in December, we expect the trajectory of rate rises in America, and domestically, to be gradual. However, we believe that by securing income from diverse sources, while simultaneously taking steps to protect against capital losses, earning the income you need is achievable.

A SOLUTION FOR SUSTAINABLE INCOME

Aviva Investors Multi-Strategy Target Income aims to pay out steady, monthly distributions, while seeking to preserve capital, regardless of the investment climate. The fund targets an annual income of 4% above the Bank of England base rate before corporation tax (the yield is currently 4.3%*). The fund also aims to preserve capital, and to be less than half as volatile as global equities over any three-year period.

The fund receives income from diverse sources: dividends on equities and real estate investment trusts (REITs), coupons from government and corporate bonds, and option premia. There are pros and cons to using each of the above on their own as a potential source of income. But by combining them we believe the fund is better placed to meet its objective of paying out steady monthly income.

Shares, for example, tend to offer relatively high dividends compared with the income available from other asset classes. Furthermore, companies tend to increase their dividend payments over time. However, investing in shares is relatively risky. Dividend payments are not guaranteed, while fluctuations in share prices can put a fund's capital at risk.

Yields on corporate bonds tend to be lower, and on government debt lower still. But on the other hand, these are both typically lower-risk investments than equities and so help to boost diversification within the fund.

Investing in property can generate secure, long-term and relatively high income via rents, as well as providing the potential for capital growth. The asset class tends to be less volatile than either fixed interest or equities, and has attractive diversification benefits as part of a broader portfolio. We invest in the property market via REITs, which are listed companies that own a portfolio of real estate assets. Investors typically receive income in the form of dividends.

We also seek to earn additional income through the use of a covered call strategy. A covered call strategy is where you sell a call option on a stock that you own and in return you receive an income, called the option premium. The main risk of this strategy is that we limit the scope for capital gains if the price of the underlying share that the fund holds rises.

Individually, the financial assets described above can produce an irregular and sometimes volatile stream of income. But by gaining exposure to all of them we look to build a diversified portfolio capable of providing steady monthly income while preserving capital.

AVIVA INVESTORS MULTI-STRATEGY TARGET INCOME

- Targets an annual income of 4% above the Bank of England base rate before corporation tax
- Pays income monthly
- Multi-strategy, multi-asset approach
- Income comes from diverse sources
- Risk mitigation strategies aim to protect the fund when the team's view is wrong
- Experienced and well-resourced team

FUND STRATEGIES

We divide the strategies the fund adopts into three main categories: 'market', 'opportunistic' and 'risk-reducing'.

The first category is primarily designed to help the fund achieve its income objective, though the strategies may also lead to capital growth if stock and bond markets provide broadly positive returns.

The second group of strategies is designed to profit from market inefficiencies or the actions of non-profit-seeking groups such as central banks. These positions look to exploit the herd mentality you often find in the markets through short-term market moves that may go against our longer-term view.

The final category aims to preserve capital, especially during market sell-offs, for little overall cost if stock and bond markets fall. For example, we are positive on US growth prospects and believe risk assets are likely to do well. However, if such assets do badly we have positions to offset it. So, we have a 'long' position in Australian interest rates which we expect to profit from a surprising souring in global sentiment and slowing growth. With the Australian economy particularly susceptible to such an event given its high exposure to the mining industry, the Australian central bank is particularly likely to cut rates in response.

The Aviva Investors Multi-Strategy Target Income fund may be an attractive option for those looking for alternative ways to earn income in a world of low interest rates.

CHELSEA RISK RATING:	4
ANNUAL MANAGEMENT CHARGE:	0.75%
ONGOING CHARGES FIGURE (OCF):	0.85%
PERFORMANCE FEE:	NONE
YIELD:	4.30%*

THE CHELSEA VIEW:

"This fund is one of very few absolute return funds that pays a decent income. Another advantage is that income is paid monthly. We particularly like the fund's emphasis on risk reduction and preserving capital during market sell-offs."

*Source: FE Analytics 15/01/2016