

# performing in turbulence

February 2009

**Daniel Roberts**, Fund Manager of the Aviva Investors UK Equity Income Fund, explains how he is identifying value in volatile markets.



2008 was a turbulent year for all asset classes. The banking crisis which first hit the headlines in 2007 gathered pace and led to several rounds of recapitalisation. The UK Government now owns big stakes in many of the domestic banks and nationalisation of some of the main protagonists is a real possibility. As problems in the credit markets began to impact the 'real economy' the rather hopeful theory that emerging markets would 'decouple' proved to be just that. This in turn brought to an end a decade-long bull market in many commodities, and the result was the worst year for the UK equity market since 1974.

## cautious mindset

Many commentators are now fearful of just how bad things will get in the coming months and years. A long and difficult process of deleveraging has begun. Governments around the world are doing their best to manage the impact of this and to prevent the onset of deflation. Risk aversion has returned with a vengeance, pushing risk-free yields to below 2% as capital protection dominates the mindset of investors.

Notwithstanding the colossal write-offs we have seen from banks across the globe, it is clear to us that earnings estimates (ex-financials) are still far too optimistic. Set against this, the market has now moved to reflect much of the diffi-

culty that lies ahead. As a result, from here we believe the UK market will reward patient investors with an appropriate long-term return.

## quality at a discount

Judicious stock selection should enhance those returns. In particular, the valuation compression we saw at the peak of the market provided a fantastic opportunity to buy 'quality' without paying a premium for it. We are not thematic investors but observed this trend from a bottom-up perspective. Whilst the more cyclical companies posted good year-on-year growth, the less glamorous parts of the market were overlooked and left behind. Many of those laggards were blue-chip companies with strong balance sheets and less volatile earnings profiles, but still healthy long-term growth prospects. Such companies are well represented in the Fund.

We remain broadly cautious on those parts of the market that benefited most from the explosion of cheap debt which led to the problems we now face. That said, we will not get too comfortable in our seats and will rely on sensible long-term analysis to identify value wherever it appears. ●

**The Aviva Investors UK Equity Income Fund is available through Skandia's Selestia Investment Solutions platform.**

## Aviva Investors UK Equity Income Fund

It is during these volatile times that the Aviva Investors UK Equity Income Fund has really proved itself. The Fund has consistently outperformed its peer group over 1, 3 and 5 years\* (based on the IMA UK Equity Income sector). The Fund is highly rated and has recently earned an 'A' rating from OBSR:

- Morningstar 4 star\*\*
- S&P A rating \*\*
- Financial Express 3 crowns \*\*
- OBSR A Rating \*\*

To generate superior returns and achieve long-term growth, managers need the conviction to back their best ideas with meaningful levels of investment. That's why the Aviva Investors UK Equity Income Fund is a concentrated, yet diversified portfolio – holding around 45-60 of the manager's best stock ideas. Dan's approach is based on a clear and consistent investment philosophy. Taking a contrarian approach, he will often buy stocks which are underperforming or out of favour.

Past performance is not a guide to future performance.

\* Source: Lipper Hindsight as at 31 December 2008.

\*\* Source: S&P, Morningstar, Financial Express and OBSR as at 31 December 2008.

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