AVIVA

Annual Investor Report 2022-23

IN ULIP PRODUCTS THE INVESTMENT RISK IN THE INVESTMENT PORTFOLIO SHALL BE BORNE BY THE POLICY HOLDER

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Aviva Investor

Disclaimer/Disclosure

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FY 2023 was dominated by Interest Rate and Inflation theme. With economies opening up post Covid, supply chain didn't recover as swiftly as the demand. This resulted in US witnessing the highest inflation in 40 years, while Euro zone seeing double digit inflation throughout the year resulting from huge amount of liquidity pumped in by Federal & Monetary authorities around the globe to support post-Covid economy. As a result of which major central banks of the world moved on from the Zero Interest Rate policy to raising the policy rates in-order to normalize it at an unprecedented pace. These actions lead to fears of global economy going into recession. Despite the grim global outlook India remained one of the fastest growing large economies with expected growth rate of 6.7-6.9% for the year underpinned by double digit credit growth & robust GST and direct tax collections set to surpass budget targets. Though India missed the target inflation band of 2-6% during most part of the year, inflation moderated after peaking at 7.79% (YoY) given prudent monetary and fiscal actions from authorities. The Union Budget 2023 focused on capex-led growth, improving the quality of government spending, and providing a credible fiscal consolidation path. Despite the buoyancy exhibited by Indian economy its Current Account Deficit (CAD) rose during FY23 due to fall in exports on back of global slowdown and resilient imports due to strong domestic demand. Consequently, high CAD resulted in sharp depreciation of the rupee against USD by around 10% (YoY). With interest rates expected to remain elevated for a longer period of time to tame inflation, 2024 is expected to be the year of subdued growth both globally while domestic growth will be driven by domestic demand.

Fixed Income Market

Fixed Income markets continued to underperform given rising interest rate scenario and withdrawal of liquidity support by the central Bank, significantly reducing the systemic liquidity to near neutral levels. Sticky core inflation, rising global yields lead bond markets to lose some returns with yields rising between 50-70 bps across the curve in FY23. With heavy supply at shorter end of the curve and restrictive monetary policy there was a steep rise in shorter end of the curve resulting in bear steepening during the year. Fears of global recession pulled back the yield towards the end of the financial year.

Interest Rate Outlook & Portfolio positioning:

We expect that interest rates are closer to the peak as inflationary outlook is well anchored. This is reflecting in lower volatility in the recent months across the yield curve. Demand for credit is inching up and this is prompting companies to visit bond market to raise debt capital. This is pushing spreads higher on corporate bonds. We have been maintaining term to maturity slightly lower than the benchmark while being underweight in the corporate bonds to mitigate the risk of widening of spreads.

Equity Market:

Fiscal 2023 was a year of exceptional volatility led by Russia's invasion of Ukraine and pandemic led sporadic lockdowns in China. Both these dislocated the global supply chains, drove demand-supply imbalances, fuelled all time high inflation and accelerated the global synchronized rate hike cycle to multi-year highs. These coupled with the turmoil in select European and US banks by the fiscal end led to volatility in the markets. With effective vaccinations and timely monetary and fiscal steps, India emerged stronger & an outlier, resulting in robust domestic demand. In this milieu, Nifty ended the fiscal with a drawdown of 0.6%, meaningfully outperforming both US S&P 500 and the EM index. Small-cap indices underperformed mid and large-cap indices. With global liquidity condensation, FII flows turned negative. Sector-wise, BFSI, FMCG and Auto were the major gainers whereas, IT, Pharma, Metals and Oil & Gas were the major losers.

Portfolio positioning and risk management:

Portfolio risk was reduced during the initial part of the year given the spike in commodity prices, volatility from the sharp interest rate hikes and the sticky nature of inflation. Accordingly, exposure to cyclical and global sectors such as Banks and IT was reduced and domestic defensives such as FMCG sectors were increased. As the spike in commodity prices settled, during the latter part of the year, exposure to consumer discretionary stocks were increased, especially in sectors having high demand tailwinds, strong pricing power and low competitive intensity. Given the volatility during the year, the portfolio construct has been skewed towards large cap and blue chip stocks. Robust risk management practices are followed in portfolio positioning and performance analysis. Portfolio performance and positioning is frequently monitored using attribution analysis. The investment policy sets maximum limits on exposure to Mid/small caps stocks in the portfolio which limits risk to the portfolio to acceptable levels. Any divergence from such limits and deviation in performance is highlighted to the fund manager who has to take corrective actions.

Risk control : As a measure of risk control, the investment committee reviews on a quarterly basis, the portfolio composition and the performance vis-a-vis benchmarks of all the funds under management. The investment committee lays down the Investment Mandates and Philosophy which are reviewed periodically. All investments are made within the Parameters laid down by the Investment Mandates and Philosophy.

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NEFT	Make payments through Net banking or by submitting the NEFT form to the bank.
Axis Bank	Pay your Premium at any of the Axis Bank Branches.
Credit Card	Pay your premium online using your Visa or MasterCard Credit Card.
Free Cheque pick-up	Avail this facility if your premium amount is above ₹5,000.
ECS	Give ECS instructions to your bank account and make premium payments.
IVR	Pay your premium with your credit card (VISA or Master Card) by calling us on 1800-180-2266/1800-103-7766.

CAGR- Compounded Annualised Growth Rate

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Advt. no. AN Apr 3/23 IRDAI Registration Number: 122

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