AVIVA

Annual Investor Report 2021-22

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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FY22 was the year of post-Covid recovery – growth indicators picked up, inflation remained elevated amidst supply side disruptions. Early in the year, the country saw rapid surge in Covid cases, crossing 1-lakh mark and lockdowns resumed in several states such as Maharashtra and others. By Q2FY22, the second wave had receded and restrictions had eased significantly while the threat of virus still loomed around intermittently. India's economy rebounded in a strong recovery in H2FY22 after enduring the second wave. India's broad range of fiscal, monetary and health responses to the crisis supported its recovery and, along with economic reforms, helped to mitigate the longer-lasting adverse impact of the crisis. Though policy steps helped mitigate the pandemic, it's still resulted in increased poverty and inequality.

Inflation remained high throughout FY22 largely due to supply-side disruptions and elevated global commodity prices – FY22 inflation is estimated to end at ~5.3% near the higher range of the RBI band. Though interest rates moved higher this year in response to rising inflation, however real rates of interest trended significantly negative, boosting returns for risky asset classes. GDP Growth also rebounded sharply in FY22 despite the second and third wave of the pandemic hitting India – FY22 real GDP growth is expected to end at 8.6% and FY23 GDP growth is also expected to remain higher with estimates ranging from 7.4-8.5%. The growth though has been uneven in distribution post pandemic with lower strata of society and the unorganized sector suffering more, also signaled by sharp rise in corporate profits and corporate tax collections. Government has also continued to support the growth recovery by fiscal stimulation budgeting fiscal deficit for FY23 at 6.4% with emphasis on capex and stimulation of private investment.

Fixed Income Market:

Fixed Income markets gave meager returns in FY22 as yields rose significantly. Amidst the Covid-19 pandemic in early 2020, RBI had significantly eased financial conditions by cutting the overnight rate to extremely low levels and pumped huge amount of liquidity through buying of government securities and bringing down government bond yields. As the economy witnessed strong recovery in the post-Covid world and inflation continued to trend higher than policy targets, RBI started withdrawing some of the monetary stimulus in H2FY22. Thus, bond markets lost some returns with yields rising between 50-70 bps across the curve in FY22.

Interest Rate Outlook & Portfolio positioning:

We are witnessing strong economic recovery and reflation globally as well as in India. As the pandemic continues to become a thing of the past, we expect that RBI will continue to withdraw the monetary accommodation including hiking of policy rates from absolute low levels.

Bond market yields are already pricing in a sharp rate hike cycle by RBI in FY23 and the term premiums are also higher than usual given the higher government borrowings and blown up fiscal deficit. The outlook remains for the interest rates to be higher in FY23, however longer term interest rates may stabilize in H2FY23 given Central bank will act to contain inflation around 4-5% mark.

We have been maintaining lower duration than the benchmark in-order to protect from the adverse impact of rise in interest rates. Further, we would be maintaining high quality corporate bonds & will endeavor to increase the allocation once spreads reaches to reasonable risk-adjusted levels.

Equity Market:

Indian economy continued its strong recovery during FY22. Despite being hit by two Covid waves in 1Q and 4Q, rapid vaccination drives helped limit the disruption and also aided in quick opening up of the economy. Nifty 50 Index gained 19% in FY22, while NSE Midcap 100 and NSE Small cap 100 indices rose 25% and 29% respectively. On a sectoral basis, IT, real estate, capital goods and commodities were the best performers, while FMCG and Automobiles were laggards. FY22 witnessed strong primary market activity, with IPOs totaling to Rs 1.1 tn were launched during the year. After recording inflows from foreign investors during the first half of the year, the FII flows turned negative for the year given global headwinds and uncertainties such as expectations of rate hikes by Central Banks to counter inflationary pressures and the Russia-Ukraine conflict.

Portfolio positioning and risk management:

The portfolios were positioned to benefit from a cyclical recovery and opening up of the economy, such as discretionary and out-of-home consumption, real estate and capital goods. The portfolio volatility was also managed by higher allocation to defensives such as IT, Pharma and Chemicals, which also aided portfolio performance. Lower allocation to sectors such as FMCG, which underperformed the markets, also contributed to performance. Stocks having direct impact from the Russia-Ukraine conflict were reviewed and exposure to such stocks was reduced to contain portfolio risk and volatility.
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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CAGR- Compounded Annualised Growth Rate

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