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Brendan Walsh
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Multiple streams of income

Having longer to enjoy retirement because of improving health and life expectancies should be a cause for celebration. But without a sustainable stream of inflation-busting income, it could be a source of anxiety rather than happiness. The Aviva Investors Multi-Strategy Target Income Fund (AIMS TIF) is designed to help retirees and other income seekers sleep at night.

Unlike many managed fund products out there, the aim of Aviva Investors' latest diversified offering is linked specifically to what the majority of investors are trying to achieve rather than to an arbitrary market cap weighted benchmark. Namely it targets annual income of 4% above the Reserve Bank of Australia (RBA) cash rate before taxes and charges, which it pays on a monthly basis.

Importantly, it does this with a huge amount of focus on downside risk and aims to preserve capital by managing volatility to a target of less than half the volatility of global equities over any three-year period.

As an extra benefit, the fund also tries to achieve 1% capital growth to offset the fees investors pay for the professional management of their capital.

Diversified income sources combined

Designed to complement the similarly constructed Aviva Investors Multi-Strategy Target Return Fund – which has raised over $8.5 billion globally in two years since its inception and has a focus on capital growth rather than income – the Target Income fund combines a number of investment ideas which on their own the portfolio managers believe can deliver the 4% income target.

These are then combined into an overall portfolio of 25-35 ideas to offer as much diversification as possible and to avoid the success of the investments being dependent on any one market outcome. The result is a fund of ideas that offers the best chance of achieving the income target irrespective of market conditions.

Brendan Walsh, one of the portfolio managers within the Aviva Investors Multi Strategy team, says that paltry real returns in the traditionally low risk fixed income market, as well as the spectre of rising interest rates in the future, means that there has never been a more important time for investors to consider multiple sources or income.

"Over the last 10 to 15 years a traditional balanced strategy has really benefitted from the bull market we've seen in fixed income. Yields have fallen from 10-15% to almost zero," he explains.

"Those balanced funds that held a large proportion of fixed income got a free risk offset when things were going bad and got a capital return on their fixed income. Going forward it's going to be extremely difficult to get that same sort of offset of capital return from fixed income and therefore the diversification must just be less.

"So when we're thinking about income – our income fund is looking to pay cash +4% – if you look at where you would get that traditionally in multi-asset you really need to start to look into emerging market fixed income and that of course brings risk. Our fund will hold some emerging markets but it has also got those risk diversifying elements in it that will offset any future volatility."

Go-anywhere approach

The fund is not restricted by any benchmark or investment universe and consequently can pursue income ideas in traditional government and corporate bonds from around the world. It can also invest in credit and emerging market debt but also equities, real estate investment trusts and even derivatives to help smooth the return journey.

Within the fund's emerging markets exposure, Walsh and his team are finding value in the government bonds of South Africa, Poland, Indonesia and Mexico.

"That's where you need to go to get the yield but the key thing is on the other side of that we have a whole bunch of risk reducing positions which act to offset the volatility that comes with those markets. So rather than relying on longer duration gilts [British bonds] or bunds [German bonds] to offset risk, we've got much more interesting positions that should do that," Walsh says.

The quote

We're allocating risk to ideas not to asset classes.

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To some the 25 to 35 strategies in play at any one time might seem a little complex but Walsh says one of the team's simplest ideas has actually been one of our best performing in recent times. That's an allocation to equity dividends.

"We have 30% of the fund invested in equities. That's run as a segregated mandate out of London by one of our fund managers Chris Murphy and that portfolio has done extremely well. We have a futures position against it to offset the beta and it's outperformed the broad index by about 10% while delivering an income of close to 4%," he says.

Global footprint

Walsh has the support of fellow portfolio managers Peter Fitzgerald, Ian Pizer, Nick Samouilhan; as well as chief executive Euan Munro, who chairs the strategic investment group. Each manager is highly experienced and this, Walsh says, is what differentiates the fund from its competitors.

"The edge we think we have is that Aviva Investors is a global institution with offices in Chicago, Toronto, Warsaw, Singapore, Paris and London. We have people in all of those offices contributing ideas to us for consideration in the multi-strategy funds. There's great depth and breadth of ideas," Walsh explains.

"Since the financial crisis there has been an explosion in multi-asset whether for income or target return. What we're offering at Aviva Investors is slightly different; it is multi-strategy and we think that's important. We're allocating risk to ideas not to asset classes and that allows us to build a much more diversified portfolio."

The Aviva Investors Multi-Strategy Target Income Fund was officially launched to Australian investors in July and is available to institutional investors and retail investors through platform providers. FS