



## Aviva Investors Small Companies Fund

January 2010



### Key features

- Gain exposure to listed Australian smaller companies
- Benefit from potentially high returns over long time frames, albeit with the higher risk of the small cap sector
- A large, experienced and stable investment team
- A robust investment process that has been proven to be effective through a number of market cycles
- Long term track record of top quartile performance
- Benefits from Aviva Investors' extensive resources supporting the dedicated small cap team's research effort

# Aviva Investors Small Companies Fund at a glance

Aviva Investors is an active manager of Australian small cap stocks. We apply a bottom up, research-focused investment process within a risk-controlled framework in managing the Small Companies Fund.

## Why small caps?

Small cap stocks are an attractive option for investors because:

- they offer the potential for strong earnings growth, creating some of the best investment opportunities available to long term investors.
- the inefficiencies at this end of the market are greater than in the Top 100, creating significant opportunities for above-market returns from active management over long term timeframes.

## Why Aviva Investors?

Aviva Investors has a successful long term track record in managing small caps. Our advantages in the market directly stem from having a well resourced, three person team of experienced people with complimentary, specialist skills.

A well resourced team is particularly important in the small cap sector given the large number of stocks in the universe. We provide investors with:

- Specialist skills. This is particularly important for some key areas such as resource and financial stocks.
- Resources to ensure no sector gets overlooked. Some of the best investment opportunities occur in sectors which have been dismissed by others for many years and not revisited due to the large number of companies in the small cap sector. The agricultural sector has been an example of this.
- The ability to understand and analyse complex financial structures. An experienced team is needed to be able to understand and effectively research these companies. Examples include Tower Australia (life insurance) or FKP Property Group (retirement villages).
- With market volatility higher than in the past three to four years, the ability to identify the best small cap opportunities is at an even greater premium.

## Investment objective

To outperform the S&P/ASX Small Ordinaries Index by 5% p.a. over rolling 5 year periods.

## Philosophy

The pricing of smaller companies is less efficient than their large cap peers because:

- There is less disclosure than for large caps, and market analysis is both less extensive and less thorough; and
- Investors tend to under or over react to company announcements, and are often under or over optimistic about a company's long term prospects.

Through our extensive company visitation program and superior knowledge of smaller companies, we seek to identify and exploit these inefficiencies to deliver consistent investment outperformance. Our analysis focuses on identifying companies where we have some insight that is not known or understood by the rest of the market, or where we believe the market has failed to correctly analyse each company's long term prospects.






## Process

- **Idea generation** – Identify the undiscovered gems/fast growing companies and companies trading at a discount through company visits and various other information sources.
- **Company research** – Meet with companies to consider factors such as management quality, industry structure, competitive advantage, track record of return on equity, earnings growth, cashflow generation, balance sheet strength, and stock liquidity.
- **Analysis** – Assessment of industry structure, management and competitive advantage, conduct company valuations, and assess how our view differs from others in the market.

The Aviva Investors Small Companies Fund has been ranked in the top quartile for performance in the Mercer Australian Small Companies sector over the past five years.

## Portfolio construction

Aviva Investors uses a unique portfolio construction process classifying all stocks as; Core, Growth or Blue Sky stocks. This approach aims to balance the risks inherent in small cap investments with the desire to hold stocks expected to provide excess returns.

Category		Maximum investment per stock	Category portfolio weighting
	<p><b>Blue Sky – 10%</b></p> <ul style="list-style-type: none"> <li>Innovative products/technologies without strong earnings</li> <li>Illiquid, but offering excellent potential</li> </ul>	2.5%	0-20%
	<p><b>Growth – 45%</b></p> <ul style="list-style-type: none"> <li>Smaller, with a more limited track record</li> <li>Often thinner management teams</li> <li>Less liquid shares</li> </ul>	5%	25-50%
	<p><b>Core – 45%</b></p> <ul style="list-style-type: none"> <li>Established track record</li> <li>Efficiently priced but potential to outperform larger cap stocks</li> <li>Strong management</li> <li>Relatively liquid</li> </ul>	10%	40-75%

At any point in time, our allocations to the Core, Growth and Blue Sky categories reflect the relative attractiveness of the companies within these categories. The experience of the portfolio managers in assessing how much of the portfolio to allocate to the riskier stocks is critical.

Risk is managed from an absolute point of view, but is also considered from a relative point of view. The Core / Growth / Blue Sky framework is expressed in terms of the actual weights of both stocks and categories. As such, it controls the downside risk and the liquidity risk for both an individual position and at the overall portfolio level. We also consider the active stock positions, the active sector positions, the tracking error and the style characteristics.

## Using the fund

Investors should be aware that this fund invests in smaller companies which are generally less liquid and more volatile than large cap Australian companies. The fund does provide the potential for commensurately high returns over the long term. The fund should therefore be used to complement large cap exposure within the growth assets component of a balanced portfolio.

### Fund details

**Inception date:**  
19 November 1999

**Fund size at 31 December 2009:**  
\$67.3m

**Benchmark:**  
S&P/ASX Small Ordinaries Accumulation Index

**Investment timeframe:**  
At least 5 years

**Relative Risk:**  
High - Very High

**Relative Return:**  
High - Very High

**Minimum Investment:**  
\$20,000

**Minimum additional investment:**  
\$5,000

**Distribution:**  
Quarterly

**Entry fee:**  
Nil

**Exit fee:**  
Nil

**Management fee:**  
0.98% p.a.

**Availability:**  
BT Wrap, Colonial First Wrap, Macquarie Wrap, Navigator, Zurich, Netwealth Wrap, Portfolio Care, Ausmaq and Mentor

**Ratings:**  
Lonsec\* – Recommended  
Zenith\*\* - Recommended  
S&P\*\*\* – Four Stars

## Portfolio Managers



**Paul Dewar**  
Investment Manager

**Key responsibilities:** Paul is the Portfolio Manager of the Small Companies Fund and is responsible for researching small caps (ex ASX 100) stocks across a range of sectors.

**Years with the group:** 16

**Years of industry experience:** 17

**Qualifications:** A Fin



**Stuart Wilson**  
Investment Manager

**Key responsibilities:** Stuart is Co-Manager of the Small Companies Fund. He is also responsible for researching small cap (ex ASX 100) stocks across a range of sectors.

**Years with the group:** 4

**Years of industry experience:** 9

**Qualifications:** B.Sc, M.App.Fin, F Fin



**Stephen Croft**  
Senior Investment  
Manager

**Key responsibilities:** Stephen is the Portfolio Manager of the small companies individual client mandates. He is also responsible for the Small Cap Resources sector.

**Years with the group:** 14

**Years of industry experience:** 25

**Qualifications:** B.Sc, B.Ec

### For further information, please contact:

- Investor Services team on 1800 671 849
- [investorservices.au@avivainvestors.com](mailto:investorservices.au@avivainvestors.com)
- visiting [www.avivainvestors.com.au/smallcompanies](http://www.avivainvestors.com.au/smallcompanies)

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