

## Aviva Investors Australian Equities Fund



**Fund Manager of the Year**  
Australia

### Key features

- We have a proven long term track record of adding value for investors
- Proven investment process
- The fund provides core Australian equities exposure
- Aviva Investors benefits from a large, well resourced and experienced investment team
- Investment team have years of industry experience in varying market conditions
- This team size allows Aviva Investors to undertake proprietary company research across its investment universe

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# The Investment Lifecycle

## Portfolio Manager Glenn Hart's view on the Earnings Lifecycle for stocks and how the Aviva Investors Australian Equities Fund invests throughout this cycle

At the top of the investment cycle 'Love' stocks are the market darlings. These stocks have had good growth for a period of time and have performed well from a share price perspective. They generally have a buy recommendation from sell side analysts and management are well respected by the market. Good news is fully factored into the share price and peak cycle earnings are extrapolated out to justify current prices. From here any unexpected problems see the stock quickly transition to 'Losing love'.

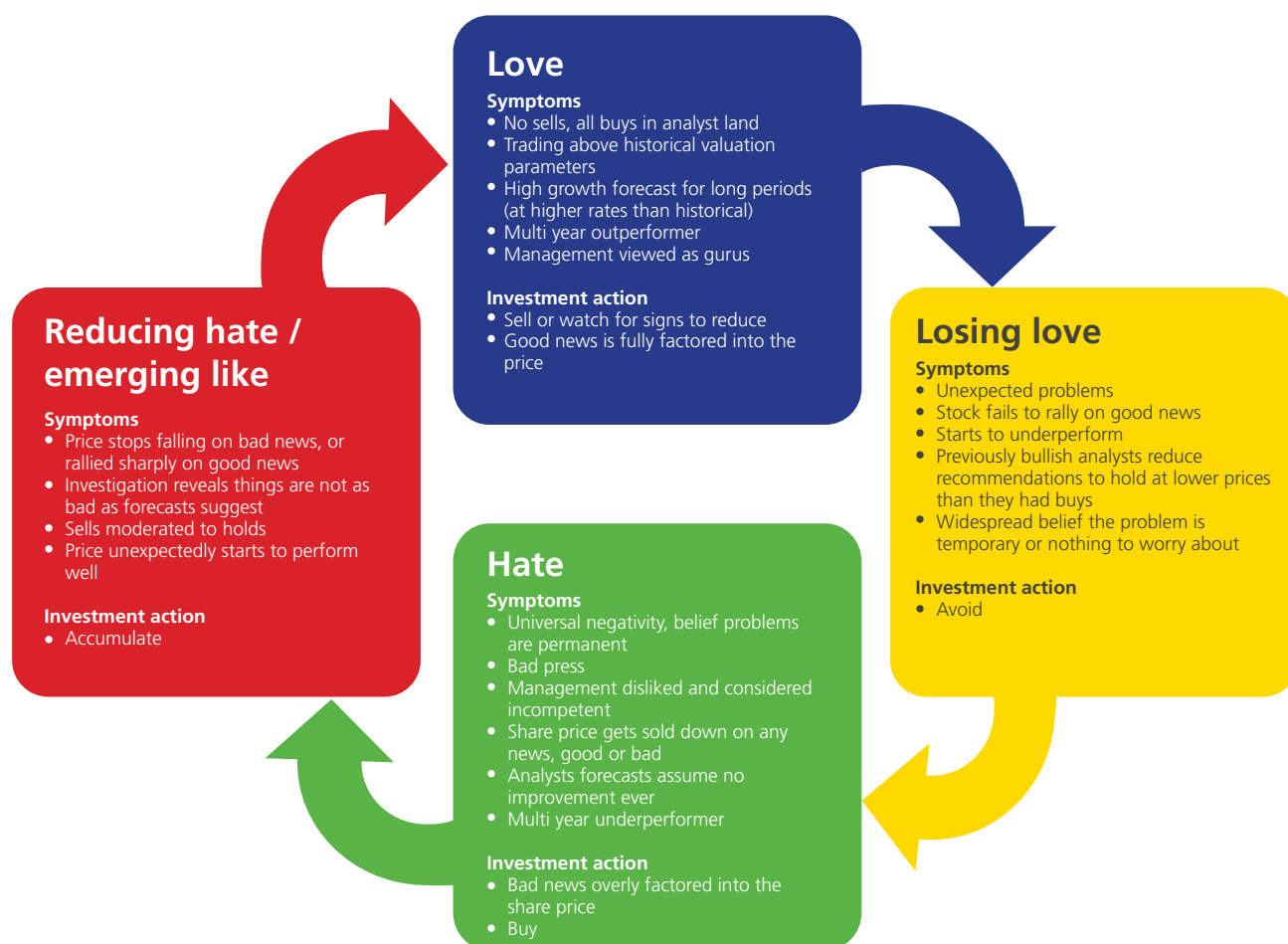
These stock fail to rally on good news and sell side analysts begin winding back recommendations and earnings expectations as the share price is falling. Many believe the problems are temporary and there is nothing to worry about.

When problems persist everyone is universally negative, believing the problems are permanent and the share price is sold down on good news or bad news. The stock is 'Hated' and management are viewed as incompetent. The stock underperforms and becomes neglected.

It is not until the share price stops falling on good news and potential investors revisit the assumptions they have made about the stock that 'emerging like' becomes the dominant feature.

Growth managers generally prefer to buy 'Love'. They focus on stocks with high earnings and potential for earnings growth but are not overly concerned with the price they pay in terms of earnings multiple. The risk is that they hold on to stocks through the 'Losing love' phase.

Value managers operate at the other end of the chart. They buy stocks that appear cheap on multiples which they believe are about to turn around or have just turned around, generally holding for the earnings upgrade and multiple expansion. Unfortunately these stocks are often cheap for a very good reason and can become 'value traps'.



Our style neutral and selectively contrarian approach allows us to select stocks that have turned around and that exhibit improving fundamentals. This means our focus remains on picking the best stocks across the market cycle, not just when the stars align. This approach can add value in all market conditions which is highlighted by the fund's long-term track record of outperformance.

# Aviva Investors' stock picking approach, combined with detailed proprietary bottom-up company research, allows us to add value across the market cycle

<b>Objective</b>	S&P/ASX 200 Accumulation Index +3% p.a. (rolling 5 year periods)
<b>Stocks</b>	Between 30-50
<b>Maximum Security Weights</b>	Maximum overweight 5% per stock around Benchmark
<b>Tracking error</b>	Up to 4% p.a. (ex ante) over rolling 5 year period
<b>Cash holding</b>	0-10%

## Investment Philosophy

At Aviva Investors we believe that equity markets are efficient in the long term, but that inefficiencies exist in the short term and that share prices eventually reflect the net present value of future cash flows. Inefficiencies occur due to a range of factors including irrational investor behaviour that can be exploited through bottom-up stock research and a disciplined approach to portfolio construction.

## Investment process

The research effort is at the core of our investment process. Our research effort is heavily focussed on in-house proprietary research and is aligned with our investment philosophy.

Our modelling is proprietary, and utilises a standard valuation model template with certain standardised valuation variables. These are:

- equity risk premium
- stock beta
- risk free rate
- terminal growth rate

## Portfolio Construction

Our aim is to construct a portfolio of undervalued securities within a risk controlled framework. Determination of active portfolio weights requires experience and judgment based on the analysis of:

- expected return
- fundamental risk
- stock liquidity
- correlated risks within the portfolio

## ESG

We believe that ESG issues are a key source of business risk to a company's operating model, yet remain almost entirely outside the view of the market. By applying a disciplined and systematic approach to the measurement of these risks, we believe we can better understand these risks and hence effectively and profitably manage them.

## Using this fund

As a core, long only, Australian equity product the fund will generally sit within the growth assets component of a balanced portfolio. Given its strong risk awareness, the fund can be used on a stand alone basis, however, the style neutral investment philosophy also makes it suitable to blend with both growth and value managers.

## Fund details

**Inception date:**  
3 July 1995

**Fund size at 30 June 2011:**  
\$132.5 million

**Benchmark:**  
S&P/ASX 200 Accumulation Index

**Investment timeframe:**  
At least 5 years

**Relative Risk:**  
High

**Relative Return:**  
High

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

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

**Distribution:**  
Quarterly

**Entry fee:**  
Nil

**Exit fee:**  
Nil

**Management fee:**  
0.87% p.a

**Availability:**  
BT Wrap, Asgard, Colonial First Wrap and IOOF

**Ratings:**  
Lonsec – Recommended\*  
S&P - Four Stars#  
van Eyk - A^

## Portfolio Manager



**Glenn Hart**  
Head of Equities

**Years with the group:** 14  
**Years of industry experience:** 25

**Key responsibilities:** Glenn is responsible for leading the Australian Equities team and is the Portfolio Manager of Dividend Builder and the Australian Equities Fund. He is also a member of the Executive team.

**Previous roles:** Glenn joined the company following the merger with CGU Insurance's investment operations, where he was Manager of Equities. Before CGU, Glenn held positions at Structured Asset Management and JBWere Asset Management.

**Qualifications:** B.Com (Melb), F Fin, Member CPA Australia

### For further information, please contact:

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