A scenic photograph of two paragliders flying over a lake at sunset. The sun is low on the horizon, creating a bright glow and reflecting on the water. The sky is filled with soft, wispy clouds. The foreground shows the dark silhouettes of trees and the water's surface.

Aviva Investors Long/Short Equity Fund

May 2010



Key features

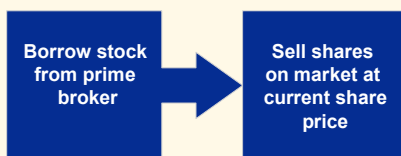
- This fund uses a range of innovative investment techniques to enhance returns for investors
- The fund is managed by the award winning team behind the High Growth Shares Fund
- The ability to reduce total market exposure means the fund will generally be less volatile than the broader market
- The fund is supported by a large investment team focused on bottom-up, proprietary stock analysis

The Aviva Investors Long/Short Equity Fund aims to enhance returns for investors through a range of innovative investment strategies such as enhanced long positions, short selling and active trading

What is short selling?

- The practice of selling borrowed stocks in the view that the stock price will soon fall, allowing the short seller to buy it back later for a profit
- The stock is 'borrowed' from a prime broker, with an agreement to purchase the stock back at a later date

Today



In the future



Factors considered in implementing short sales?

Type of short position

- Flawed or funding? Strategic or tactical?
- Stock specific or pairs trading?
- Identifiable catalysts for underperformance?

Risk management

- Liquidity/free float/register structure
- M&A/takeover risk
- Level of short interest/recall risk
- Actively managing position size - stock limits/limit loss
- Asymmetric risk – requires disciplined approach

Other considerations

- Borrow cost, lender domicile, dividends

The Long/Short Equity Fund employs three underlying strategies:

Short selling

Proceeds from short selling transactions are typically used to enhance the fund's long positions.

Liquidity is a key factor in identifying a potential stock for a short position. Although there are no portfolio guidelines dictating precise levels, the majority of short positions are taken in stocks in the ASX 100, enabling the portfolio managers to move in/out of positions easily and quickly as required.

Enhanced long positions

Refers to the fund's largest overweights, generally held in those stocks trading at a significant discount to the analysts' valuation.

While the enhanced long positions are broadly consistent with the expected return ratings produced by the analysts, the portfolio managers retain ultimate discretion over stock selection and portfolio construction.

Active and opportunistic trading

A range of other strategies incorporate elements of the two strategies mentioned above and other ideas generated by the portfolio managers. These include active trading, pairs trading and other opportunistic trading to benefit from short term opportunities.

Active trading includes trading in stocks where the fund has held a range of different positions over a relatively short period of time, with a view to fully exploiting all available opportunities to add value as circumstances change.

Active trading may also involve simply managing an overweight or other position held - adding to or reducing the position to benefit from smaller movements in the shareprice.

Pairs trading is undertaken with a view to favouring one stock in an industry or sector over another, without affecting the portfolio's overall exposure to that sector. For example: an overweight position in 'Stock A' balanced by a corresponding short position in 'Stock B' which is in the same sector or has similar characteristics.

Stocks trading above valuation

- ⇒ Traditional investing: zero holding
- ⇒ High Growth Shares investing: **short sell**

Stocks bouncing around valuation

- ⇒ Traditional investing: take no action
- ⇒ High Growth Shares investing: **actively trade**

Stocks trading below valuation

- ⇒ Traditional investing: long
- ⇒ High Growth Shares investing: **enhanced long**

Given the fund’s flexibility to have a lower net market exposure than most other long/short funds, it is expected that the fund’s returns will be less volatile than other long/short funds, with less upside and less downside risk

Investment objective and strategy

The fund’s objective is to significantly outperform its Benchmark over the longer term by investing in a diversified portfolio of Australian shares.

The fund can hold short positions in shares totalling up to 50% of the value of the fund’s net assets. The fund can use the proceeds from short selling to make additional investments in other shares up to 50% of the value of the fund’s net assets (enhanced long positions) enabling the fund to have a gross market exposure up to a maximum of 200%.

Investment process

Our equities analysts undertake systematic bottom-up research, focusing on eight factors we believe drive company valuations over the longer term:

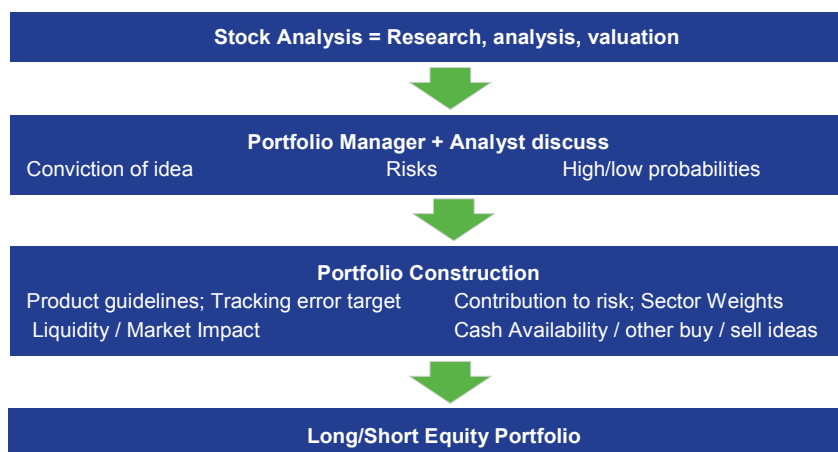
- Earnings
- Returns
- Management
- ESG
- Industry structure
- Balance sheet
- Competitive advantage
- Cash flow generation

As an outcome of our research effort, analysts produce an absolute valuation and a 12-month price target for each stock. The valuation is calculated using a standardised methodology and provides the analyst with a reference point. The target price represents Aviva Investors’ best estimate of the value to which we expect the share price to move towards over the next 12 months.

Portfolio construction

Risk management

- Diversified portfolio: typically 50 - 70 stocks (including shorts)



- Stock limits: +/- 7% if index weight < 5% and +/- 10% if index weight > than 5%

Using the fund

The fund is a 150/50 style long/short Australian equities fund. As such the fund will generally sit within the growth assets component of an investor’s portfolio. The fund is suitable for higher risk profile investors seeking capital growth with a five year plus time horizon.

Fund details

Inception date:
25 August 2004

Fund size at 30 April 2010:
\$106.0m

Benchmark:
75% S&P/ASX 200 Accumulation Index, 25% UBS (Australian) Bank Bill 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:
1.00% p.a.¹

Performance fee:
15% of performance above the benchmark

Availability:
Asgard

Ratings:
Lonsec* - Highly Recommended

¹ Excluding performance fee

Portfolio Managers



Richard Dixon
Senior Investment
Manager

Key responsibilities: Richard is the Portfolio Manager of both the High Growth Shares Fund and Long/Short Equity Fund. He is also responsible for researching the Diversified Financials sector.

Years with the group: 10

Years of industry experience: 15

Previous roles: Richard was an Equities Dealer for AMP Asset Management for three years before he joined the company. He had previously worked as a Performance Analyst and Equities Dealer with Prudential Fund Managers.

Qualifications: B.Ec. (Macq), F Fin



Michael Brown
Investment Manager

Key responsibilities: Michael is Deputy Portfolio Manager of the High Growth Shares Fund, Long/Short Equity Fund and Listed Property Fund. He is also responsible for researching stocks in the Food, Beverages & Tobacco and Materials (ex-Metals & Mining) sectors.

Years with the group: 4

Years of industry experience: 23

Previous roles: Michael previously worked for ABN AMRO in a Research Sales and Account Management role. Prior to this, Michael was a Senior Analyst with Merrill Lynch from 1994 – 2001. During his time with Merrill Lynch, Michael was a rated analyst in the building materials and basic industry sectors and was a rated member of the small company's team in 1994 and 1995.

Qualifications: B.Ec. (UQ), F Fin

For further information, please contact:

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- investorservices.au@avivainvestors.com
- visiting www.avivainvestors.com.au

Important information

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