

A photograph of a parking garage at sunset. A person in a dark suit is walking from left to right in the middle ground. A dark car is parked behind them. The scene is lit with warm, golden light from the setting sun, creating a lens flare effect in the upper right corner. The floor is a light-colored concrete.

## Aviva Investors High Growth Shares Fund

May 2010



### Key features

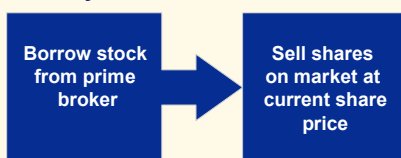
- This fund was one of Australia's first long/short equity funds
- It uses a range of innovative investment techniques to enhance returns for investors
- The fund has a long term track record exceeding its stated investment objective
- The fund is supported by a large investment team focused on bottom up, proprietary stock analysis

The Aviva Investors High Growth Shares 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 High Growth Shares 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 share price.

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**

The High Growth Shares has consistently provided investors with strong returns. Since its inception in 1999, the fund has provided an absolute return to investors of 260% (net of fees) compared to the index return of 135%.

## Investment objective and strategy

The fund's objective is to outperform the S&P/ASX 200 Accumulation Index by 5% p.a. over a rolling five year period.

The fund can hold short positions in shares totalling up to 25% 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 25% 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 150%.

## Investment process

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

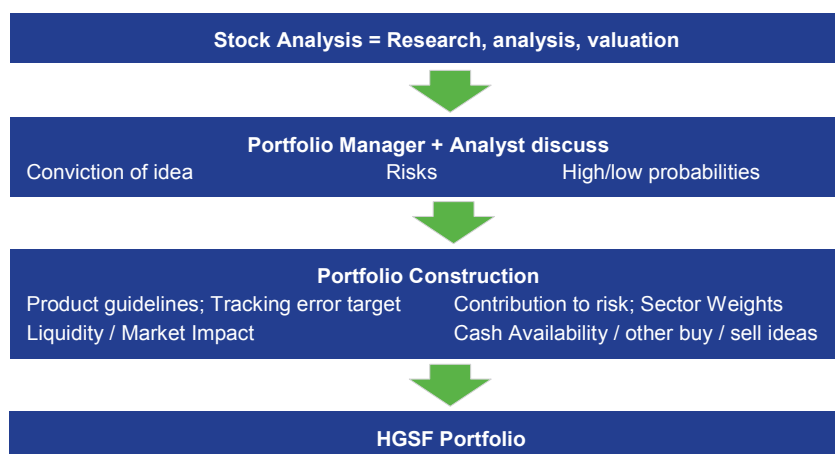
- Earnings
- Returns
- Management
- ESG
- Industry structure
- Balance sheet
- Competitive advantage
- Cash flow generation

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 125/25 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:**  
7 December 1999

**Fund size at 30 April 2010:**  
\$1.3b

**Benchmark:**  
S&P/ASX 200 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:**  
1.05% p.a.

**Performance fee:**  
20% of performance above the benchmark plus 5%

**Availability:**  
All major platforms

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

## 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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- visiting [www.avivainvestors.com.au](http://www.avivainvestors.com.au)

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### Important information

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A member of the Aviva plc group.

Website: [www.avivainvestors.com.au](http://www.avivainvestors.com.au)

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