

Aviva Investors High Growth Shares Fund



Fund Manager of the Year
Australia

Key features

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

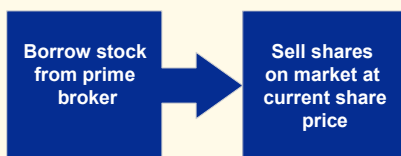
From 1 October 2011, Aviva Investors Australia Limited (ABN 85 066 081 114) is a wholly-owned subsidiary of National Australia Bank Limited and is no longer part of the Aviva plc Group.

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

These refer 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 Fund has consistently provided investors with strong absolute and relative returns. Since its inception in 1999, the fund has returned 10.3% p.a. (net of all fees and expenses) compared to the index return of 6.5% p.a.

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:

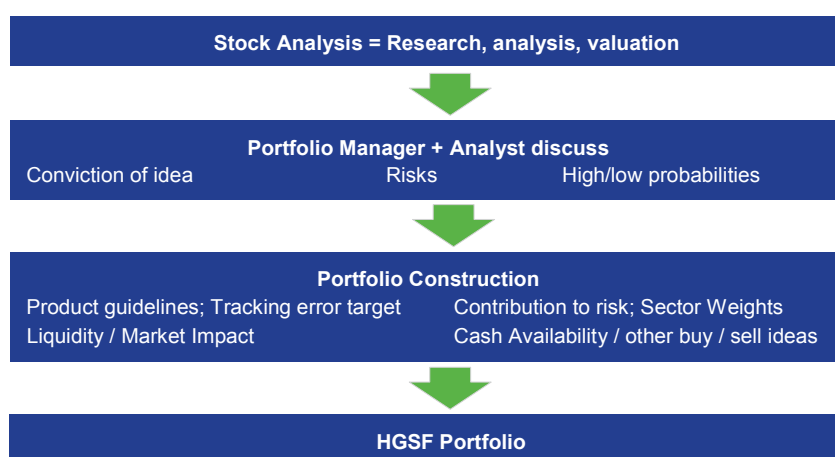
- Earnings
- Industry structure
- Returns
- Balance sheet
- Management
- Competitive advantage
- ESG
- Cash flow generation

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's 125/25 style will be suited to the high growth / aggressive component of an investors portfolio. The fund is suitable for investors seeking higher risk investment strategies for long term growth in order to increase returns and capital growth.

Fund details

Inception date:
7 December 1999

Fund size at 31 Dec 2011:
\$1.0 billion

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* - Recommended
Morningstar ** - Investment Grade
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: 11

Years of industry experience: 17

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



Richard Colquhoun
Investment Manager

Key responsibilities: Richard is the Portfolio Manager of Aviva Investors' group funds. In addition he is the Deputy Portfolio Manager for the High Growth Shares Long Short and Listed Property Funds. He is also responsible for researching the Developers & Contractors, Media, Utilities, Chemicals and Packaging sectors.

Years with the group: 4

Years of industry experience: 18

Previous roles: Richard was previously an Investment Analyst at Argo in Sydney.

Qualifications: B.Com (Newcastle) F Fin

For further information, please contact:

- Client Services team on 1800 671 849
- investorservices.au@avivainvestors.com
- visiting www.avivainvestors.com.au

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