Quarterly Review

September 2009

Listed Property - the sector explained

Fresh from winning Best Australian Listed Property Fund at the 2009 AFR Smart Investor Blue Ribbon Awards, Brett McNeill, Portfolio Manager of the Aviva Investors Listed Property Fund, answers some questions about the sector, its composition and how the fund is performing.

Can we start with a quick overview of your fund and how it invests?

In simple terms, the Aviva Investors Listed Property Fund provides its investors with exposure to the Australian listed property sector by investing in a concentrated, yet well diversified portfolio of listed securities. The fund is open and highly liquid, with no gearing or shorting permitted, and has no capacity problems.

In essence, we seek to identify stocks that have trustworthy management, have strong balance sheets, own quality real estate, have sensible growth plans and are attractively priced. We then aim to build a diversified portfolio of the most attractively valued listed property and property-related securities.

The fund aims to outperform its benchmark over rolling five year periods.

Do you believe that active managers can add value in the Australian listed property sector?

We firmly believe that active managers can add significant value for their clients in this sector.

Recognising that the sector is reasonably concentrated, we think it is crucial for a fund manager to have a suitable approach if it is to achieve its outperformance objectives.

We strongly believe that superior long-term investment returns can be generated by having a clear strategy, doing our own stock research and analysis, using the insights of a large and experienced investment team, making long-term investment decisions and positioning our portfolio accordingly through a conservative and disciplined portfolio construction process.

In addition, we think our fund's ability to add value is enhanced by having the following attributes:

- Relatively low fee structure.
- Focusing on delivering tax-effective returns.
- Flexible and practical approach to benchmarking, which gives the fund the ability to invest outside the benchmark if we see suitable opportunities.

So how has the Aviva Investors Listed Property Fund performed? Has it been able to add value?

The short answer is that yes, the fund has added significant value for investors, with long-term returns achieved that are well above those produced by the index.

Period	Gross Return %	Benchmark Return[1] %	Excess Return %	Net Return[2] %
1 year	-16.3	-23.7	7.4	-16.9
3 years p.a.	-12.8	-18.3	5.5	-13.4
5 years p.a.	-0.3	-4.4	4.1	-1.0
10 years p.a.	7.2	4.5	2.7	6.4
Since inception p.a.[3]	7.9	6.3	1.6	7.1

Disclaimer: Unless otherwise stated, returns are calculated using exit unit prices, and assume that all distributions are reinvested. Past performance is not a guide to or indication of future performance.

[1] S&P/ASX 200 A-REIT Accumulation Index.

[2] Investment returns are based on exit to exit prices of Professional Selection units, are net of management fees and assume reinvestment of all distributions.

[3] Inception date: 28/02/1994

What is the so called 'Westfield effect'? And what is the fund's current position in Westfield?

The 'Westfield effect' refers to the weighting of Westfield shares in the Australian listed property sector's benchmark - the S&P/ASX 200 A-REIT Accumulation Index. Because the Westfield Group is a large real estate company that operates both in Australian and overseas markets, it has a large index weighting, which is the major reason why the Australian listed property sector is more concentrated than a lot of other sharemarket indices.

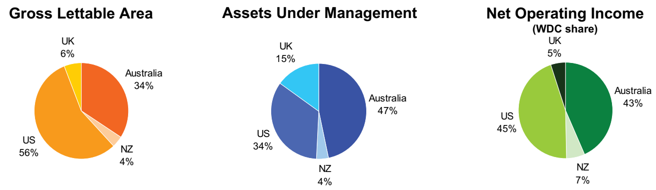
What the Westfield effect means for investors is that the vast majority of Australian listed property funds that are benchmarked to the index will typically hold a big weighting in Westfield shares. To put this into context, we note that Westfield is currently around 42% of the index.

Our fund moved to an 'overweight' position in Westfield Group in late 2008 after being 'underweight' for a considerable amount of time. As the credit crisis and economic downturn played out, one of our key beliefs was that high quality stocks would start to strongly outperform, with the market likely to pay more attention to differences in quality between companies.

Westfield is a stock that is managed by a group of people that we judge to be high quality in terms of their experience and expertise across retail property management, property development and capital management. The business enjoys a terrific position in terms of the size, scale and location of its operations, and has been built up over many decades. The table on the following page gives some idea of the portfolio's size and global diversification.

Portfolio Summary as at 30 June 2009

	United States	Australia	United Kingdom	New Zealand	Total
Centres	55	44	8	12	119
Retail Outlets	8,889	11,743	1,256	1,716	23,604
GLA (million sqm)	5.9	3.6	0.6	0.4	10.5
Westfield Asset Value (billion)[1]	US$15.3	$21.2	£2.5	NZ$3.1	$47.6
Assets Under Management (billion)[2]	US$17.4	$29.1	£4.6	NZ$3.1	$62.3



[1] *WDC share of shopping centre assets including work in progress and assets held for redevelopment*
[2] *WDC and joint venture share of shopping centre assets including work in progress and assets held for redevelopment*
Note: Exchange rates as at 30 June 2009 were AUD/USD 0.8135, AUD/GBP 0.4905, AUD/NZD 1.2470

Source: Westfield Group, Half-year result, 30 June 2009

In mid 2007 as a number of Australian real estate companies were heading offshore and using lots of debt to pay top dollar for low quality acquisitions, Westfield were actually doing the opposite – raising fresh equity to pay down debt, and tidying up their portfolio by selling some of their underperforming shopping malls. While few companies came through the credit crisis totally untouched, this strategy obviously benefited Westfield's position and performance enormously, as companies with high debt levels and low quality property portfolios have been severely punished by the market.

Source: Iress

In late 2008 and early 2009, our research and analysis showed that Westfield shares at a price around $10 represented a very attractive entry point for a long term investment, and therefore our fund was a buyer.

Back to the listed property sector in general – has it changed much over the last 12 months?

The sector has changed markedly for the better. One of the few benefits of a market downturn like the one we have just experienced is that it can act as a catalyst for a clean up, something we have previously referred to as a 'cleansing process'. In this process we were looking for changes to occur across the listed property sector as a whole, primarily in the areas of balance sheets, management teams and growth strategies.

Pleasingly, a lot of this change has taken place, which gives us a much greater level of confidence about the sector's future prospects. For example, most REITs now have stronger balance sheets, sustainable dividend policies and sensible growth strategies. In addition, groups like GPT Group have new management that have been able to address the company's problems with a fresh set of eyes and without carrying the baggage of past mistakes. In summary, we think the sector is now in a much stronger and more sustainable position.

Market Review

The global economic outlook continued to improve during the September quarter as key leading economic indicators in all major regions rose further, prompting equity markets to follow suit. While the bounce in these indicators is welcome, labour markets in general remain weak and job losses are still coming through, albeit at a moderating pace.

Australia appears to be leading the recovery charge, being the first of the advanced economies to raise interest rates since the onset of the Global Financial Crisis, with the Reserve Bank of Australia (RBA) raising the official cash rate by 0.25% to 3.25% following its October Board Meeting. The latest employment data released this month also suggests that things are on the improve. Both business and consumer confidence measures continued to rise and housing data continued to reflect the benefits of low interest rates and the Government first home owner's grant.

Building on a good second quarter, the Australian equity market gained a further 21.5% (S&P/ASX 200 Accumulation Index) over the September quarter. Activity in the market was somewhat subdued in comparison to previous quarters. The August reporting season came and went with less fanfare than in February, and there was far less capital raising activity. Merger and Acquisition activity did however pick up.

On a sector basis, Banks (up 35.6%) were the best performers, assisted by a steadying economic outlook easing concerns on loan losses. Defensives were under pressure during the quarter, with Telecommunications (down 3.0%) faring the worst, affected by the uncertainty surrounding the regulatory regime facing Telstra.

All major global markets, bar Japan, followed on from a positive Q2 with stellar September quarters, most posting a return of 15% or more for the period. Buoyed by easing credit markets facilitating another strong performance in the Financials sector, the US equity market gained 15.0% (S&P 500) to rival last quarter's gain of 15.2%.

Below are short commentaries on each Aviva Investors fund, outlining their gross performance and the main contributors to performance.#

Australian Equities Fund - The fund returned 20.6% for the September quarter, underperforming the benchmark S&P/ASX 200 Accumulation Index return of 21.5% by 0.9%. The main contributors to performance for the portfolio over the quarter were overweight positions in National Australia Bank and BlueScope Steel. Being overweight in Telstra Corporation and not owning Macquarie Group detracted from performance.

Australian Resources Fund - The fund delivered a return of 13.3% for the quarter, outperforming the benchmark S&P/ASX 300 Resources Accumulation Index of 11.3% by 2.0%. Positively contributing to performance during the quarter were overweight positions in Ivanhoe Australia and Citadel Resource Group. Main detractors from performance were being overweight in Avoca Resources and not owning Macarthur Coal.

Dividend Builder - The fund delivered a return of 22.9% for the quarter, underperforming the benchmark S&P/ASX 200 Industrials Accumulation Index of 26.1% by 3.2%. Not owning CSL and having an overweight position in Fairfax Media positively contributed to performance. Being overweight in Telstra Corporation and Dexus Property Group detracted from performance.

Elite Opportunities Fund - The fund returned 24.7% for the quarter, outperforming the benchmark S&P/ASX 200 Accumulation Index return of 21.5% by 3.2%. The main contributors to performance for the portfolio were overweight positions in James Hardie Industries and Asciano Group. Main detractors from performance over the quarter were not owning Commonwealth Bank and Macquarie Group.

High Growth Shares Fund - The fund returned 22.0% for the quarter, outperforming the benchmark S&P/ASX 200 Accumulation Index of 21.5% by 0.5%. The main stocks to contribute to performance during the September quarter were overweight positions in Asciano Group and National Australia Bank. Main detractors from performance were underweight positions in ANZ Banking Group and Macquarie Group.

Long/Short Equity Fund - The fund delivered a return of 16.6% for the quarter, outperforming the combined benchmark S&P/ASX 200 Accumulation Index (75%) and UBS Bank Bill Index (25%) of 16.1% by 0.5%. Positively contributing to performance during the quarter were overweight positions in Asciano Group and National Australia Bank. Stocks detracting from performance were underweight positions in ANZ Banking Group and Macquarie Group.

Small Companies Fund - The fund delivered a return of 28.3% for the quarter, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index of 21.8% by 6.5%. The main contributors to performance for the portfolio were overweight positions in Citadel Resource Group and Nomad Building Solutions. Stocks detracting from performance were overweight positions in Slater & Gordon and Tower Australia Group.

Sustainable Investment Fund - The fund returned 22.7% for the quarter, outperforming the benchmark S&P/ASX 200 Accumulation Index of 21.5% by 1.2%. The main contributors to performance for the portfolio during the September quarter were an underweight position in Telstra Corporation and an overweight position in Brambles. Stocks detracting from performance were overweight positions in QBE Insurance Group and not owning Macquarie Group.

Australian Shares Fund* - The fund delivered a return of 20.9% for the quarter, underperforming the benchmark S&P/ASX 200 Accumulation Index of 21.5% by 0.6%. The main contributors to performance for the portfolio over the quarter were overweight positions in National Australia Bank and BlueScope Steel. Being overweight in Suncorp-Metway and OneSteel detracted from performance.

Listed Property Fund - The fund delivered a return of 24.7% for the quarter, underperforming the benchmark S&P/ASX 200 A-REIT Accumulation Index of 30.5% by 5.8%. Positively contributing to performance during the quarter were an underweight position in Commonwealth Property Office Fund and not owning Macquarie CountryWide Trust. Stocks detracting from performance were underweight positions in Goodman Group and Mirvac Group.

Premier Fixed Income Fund - For the quarter the fund delivered a gross return of 3.2%, outperforming the benchmark[1] return of 2.3% by 0.9%. The main driver of outperformance was the overweight allocation to global high yield, now fully managed by our US colleagues. Ongoing credit spread improvement globally, and indeed locally, also made a strong contribution.

High Yield Fund* - The fund returned 5.4% for the quarter, outperforming the benchmark[2] return of 1.3% by 4.1%. As with the previous quarter, the main contributors to outperformance were a number of ASX listed hybrid securities that enjoyed renewed investor demand as the rally in both equity and credit markets continued to broaden. In particular the Multiplex SITES, Australand Assets and Elders Preference Shares enjoyed strong price appreciation as fears of systemic risk, a double dip recession and corporate defaults receded.

All returns are gross of fees. Please refer to page 4 of the Quarterly Review for a summary of returns which are net of fees.
* Closed to new investments
[1] Benchmark is 75% UBS Australia Composite Bond Index and 25% Barclays Capital Global Aggregate Bond Index (hedged into A$)
[2] Benchmark is UBS Australia Composite 0-5 Year Index

Aviva Investors Investment Returns

Performance to 30 September 2009

		3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	Since Inception % p.a.
Australian Equities						
Australian Equities Fund Inception date: 03/07/1995	Gross Return	20.6	12.0	4.2	12.0	11.8
	Benchmark Return	21.5	8.3	1.7	10.0	10.6
	Excess Return	-0.9	3.7	2.5	2.0	1.2
	Net Return	20.4	11.0	3.3	11.0	10.9
Australian Resources Fund Inception date: 03/03/2008	Gross Return	13.3	13.7	-	-	-5.4
	Benchmark Return	11.3	8.6	-	-	-9.3
	Excess Return	2.0	5.1	-	-	3.9
	Net Return	12.6	12.0	-	-	-6.7
Dividend Builder Inception date: 06/09/2005	Gross Return	22.9	11.4	1.2	-	4.9
	Benchmark Return	26.1	8.6	-0.9	-	3.9
	Excess Return	-3.2	2.8	2.1	-	1.0
	Net Return	22.7	10.7	0.6	-	4.2
Elite Opportunities Fund Inception date: 18/11/2002	Gross Return	24.7	17.3	6.7	13.3	16.2
	Benchmark Return	21.5	8.3	1.7	10.0	11.7
	Excess Return	3.2	9.0	5.0	3.3	4.5
	Net Return	24.1	16.1	5.9	12.4	15.2
High Growth Shares Fund Inception date: 07/12/1999	Gross Return	22.0	19.7	6.7	13.9	15.4
	Benchmark Return	21.5	8.3	1.7	10.0	8.8
	Excess Return	0.5	11.4	5.0	3.9	6.6
	Net Return	21.7	18.0	5.3	12.5	13.6
Long/Short Equity Fund Inception date: 27/08/2004	Gross Return	16.6	19.8	9.1	15.7	16.5
	Benchmark Return	16.1	7.8	4.2	11.6	12.2
	Excess Return	0.5	12.0	4.9	4.1	4.3
	Net Return	16.4	17.6	7.6	14.5	15.3
Small Companies Fund Inception date: 19/11/1999	Gross Return	28.3	13.0	9.2	15.4	13.6
	Benchmark Return	21.8	6.3	-1.7	7.6	6.2
	Excess Return	6.5	6.7	10.9	7.8	7.4
	Net Return	28.0	11.9	8.1	14.3	12.5
Sustainable Investment Fund Inception date: 16/02/2006	Gross Return	22.7	13.9	4.1	-	6.0
	Benchmark Return	21.5	8.3	1.6	-	4.2
	Excess Return	1.2	5.6	2.5	-	1.8
	Net Return	22.5	12.9	3.2	-	5.1
Australian Shares Fund* Inception date: 25/01/2000	Gross Return	20.9	12.2	4.4	11.9	10.4
	Benchmark Return	21.5	8.3	1.7	10.0	9.0
	Excess Return	-0.6	3.9	2.7	1.9	1.4
	Net Return	20.7	11.2	3.5	11.0	9.4
Listed Property						
Listed Property Fund Inception date: 28/02/1994	Gross Return	24.7	-16.3	-12.8	-0.3	7.9
	Benchmark Return	30.5	-23.7	-18.3	-4.4	6.3
	Excess Return	-5.8	7.4	5.5	4.1	1.6
	Net Return	24.5	-16.9	-13.4	-1.0	7.1
Fixed Income						
Premier Fixed Income Fund Inception date: 31/05/2000	Gross Return	3.2	7.4	6.3	6.2	6.8
	Benchmark Return	2.3	8.3	6.9	6.3	6.7
	Excess Return	0.9	-0.9	-0.6	-0.1	0.1
	Net Return	3.1	7.0	5.9	5.8	6.5
High Yield Fund* Inception date: 21/01/2004	Gross Return	5.4	2.2	1.3	3.5	4.0
	Benchmark Return	1.3	7.5	6.6	6.1	6.1
	Excess Return	4.1	-5.3	-5.3	-2.6	-2.1
	Net Return	5.3	1.5	0.7	2.8	3.4

* Closed to new investments