



From Y2K to GFC; a decade of outperformance

Put in perspective, the “noughties” were certainly a mixed bag in equity markets, both domestically and overseas. While many will focus on the more recent events transpiring from the Global Financial Crisis that gripped the globe from 2008, there were many other significant moments and events that shaped the decade.

It all started as the “nineties” ended, creating the big uncertainty that was Y2K. Doomsayers thought the world was going to end; most of us thought nothing would change, and history shows that the millennium bug failed to strike a telling blow. Along a similar technology theme, the dot com crash of 2000 caused some ripples globally, but was a big learning experience, as since then the Internet has transformed the way we live our lives. Locally, the Sydney Olympics came and went with much fanfare. While the introduction of the GST in July 2000 didn’t impact markets as they possibly could have.

One of the major events of the decade were the 9/11 attacks on the US, which had a lasting impact on global markets. A war on terror ensued, as the US led offensives in Iraq and Afghanistan, resulting in markets troughing in early 2003. A massive bull market then developed, as markets took on all comers with relative ease. Several natural disasters provided resistance, namely the Asian Tsunami (December 2004), Hurricane Katrina (August 2005), and Cyclone Larry (March 2006), but it took until early 2007 before markets started to show genuine jitters.

As history tells us, the US sub-prime fiasco was the catalyst behind what was likened at the time to Great Depression 2. Markets worldwide went into freefall as the GFC took hold with massive dislocation in all asset classes. Equities and commodities prices fell heavily, currencies swung wildly, credit related securities were trashed and bond markets enjoyed an aggressive “flight to safety” rally. The 2008 All Ordinaries result of -43% was by far the worst Australia has seen since the turn of the last century. March 2009 saw a turnaround in markets, with the gains that were lost in the GFC starting to be clawed back by the decade’s closing bell.

During this period of intense activity, Aviva Investors has had two investment solutions that have stood the test of time, and flourished. In late 1999 Aviva Investors launched both the High Growth Shares Fund and the Small Companies Fund, and this past quarter has seen both of these funds achieve ten years of outstanding investment performance.

This significant milestone demonstrates a longevity rarely seen in the competitive Australian equities market. Being able to provide investors with such strong above-market returns over such a turbulent period is something we are very proud of. To illustrate, Charts 1 and 2 depict the returns to investors if \$10,000 was invested into each of the funds in December 1999. Both funds

would have provided a cumulative return in excess of 200% on that original \$10,000 investment; significantly more than their respective benchmarks.

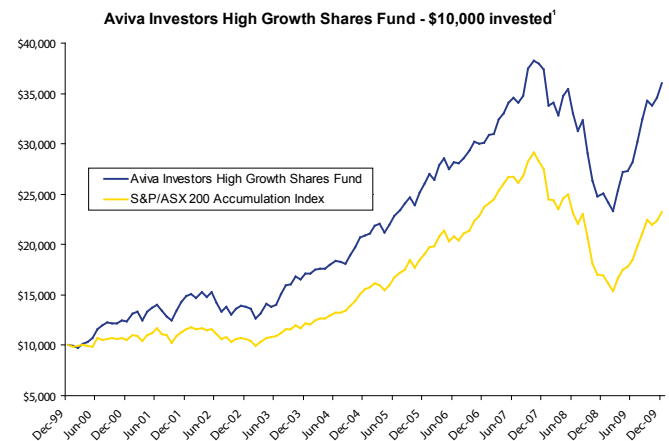


Chart 1 - Aviva Investors High Growth Shares Fund

Source: Aviva Investors

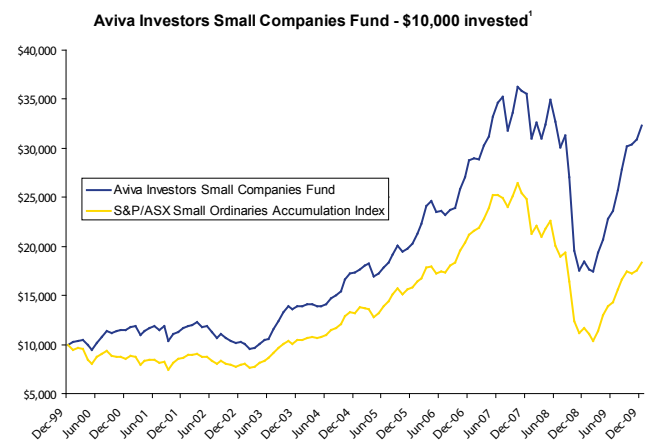


Chart 2 - Aviva Investors Small Companies Fund

Source: Aviva Investors

“These two funds have achieved excellent long term outperformance for our investors and continue to be highly rated by research houses. Both funds have consistently achieved top quartile performance over the long term,” says Glenn Hart, Head of Equities.

The style and integrity of both funds has been maintained through stable management teams. Often a sign of good management is the measure of performance in good and bad times. During the decade both funds have had significant periods of outperformance, as evidenced in the performance tables below, indicating a strong adherence to process and the ability to deliver in all market conditions.

Aviva Investors High Growth Shares Fund

(as at 31 December 2009)

Period	Gross Return %	Benchmark Return %	Excess Return %	Net Return ² %
1 year	45.7	37.0	8.7	43.5
3 years p.a.	7.5	-0.7	8.2	6.1
5 years p.a.	12.9	8.4	4.5	11.5
10 years p.a.	15.5	8.8	6.7	13.6
Since inception p.a.	15.6	8.9	6.7	13.7

Table 1 - Investment performance of the Aviva Investors High Growth Shares Fund

Aviva Investors Small Companies Fund

(as at 31 December 2009)

Period	Gross Return %	Benchmark Return %	Excess Return %	Net Return ³ %
1 year	76.5	57.4	19.1	74.7
3 years p.a.	4.9	-4.8	9.7	3.9
5 years p.a.	14.3	6.7	7.6	13.2
10 years p.a.	13.1	6.2	6.9	12.0
Since inception p.a.	14.1	6.5	7.6	13.0

Table 2 - Investment performance of the Aviva Investors Small Companies Fund

While similar in their success and their ability to leverage the strength of Aviva Investors' twelve-member Australian equities team, these funds are quite distinct, both having different attributes and operating in different parts of the Australian equities market.

In the case of the High Growth Shares Fund, an innovative and groundbreaking product when first introduced in the late 1990s, it has the ability to hold short positions in shares, providing a 125/25 long/short exposure. As one of Australia's first long/short equity funds, it has an enviable history of experienced and stable management. It is a large cap Australian shares fund which uses a range of techniques, such as short selling, enhanced long positions and active trading, to achieve returns for clients. Since its inception in December 1999, the fund has delivered on its objective, generating an excess return of 6.7%.p.a. (gross of fees) over its benchmark⁴.

The Small Companies Fund has also achieved outstanding results, backed by our well resourced, three person small caps team.

The fund has generated an excess return of 7.6% p.a. (gross of fees) over its benchmark, since its inception in November 1999⁵. The fund participates in a part of the market where inefficiencies are greater than in the large cap space, creating opportunities for those who can dedicate the resources required to take advantage.

Aviva Investors has a pedigree in actively managing small cap portfolios dating back to 1996. The small caps team applies a bottom-up, research-focused investment process within a risk-controlled framework in managing the Small Companies Fund. This approach aims to balance the risks inherent in small cap investments with the desire to hold stocks expected to provide excess returns.

Awards & Ratings

Over the past ten years both funds have received numerous awards. In 2009 the High Growth Shares Fund was a finalist in the Long/Short Category of the Money Management awards. The Small Companies Fund was a finalist in the Australian Equities - Small Cap section in the 2009 Standard & Poor's Fund Awards.

The long term track record of these funds and quality of the portfolio management teams has also been reflected in strong research house ratings:

- The High Growth Shares Fund is rated "Highly Recommended"⁶ by Lonsec and "Four Stars"⁷ by Standard & Poor's.
- The Small Companies Fund is rated "Recommended"⁶ by Lonsec, "Four Stars"⁷ by Standard & Poor's, "Recommended"⁸ by Zenith and "Highly Rated"⁹ by van Eyk.

In what has been a decade of change, it has been pleasing to provide investors with one constant; above-market investment returns across both funds.

¹Assumes investment made from 31 December 1999. Investment returns are based on exit to exit prices of Professional Selection units, are net of management fees and assume reinvestment of all distributions.

²Investment returns are based on exit to exit prices of Professional Selection units, are net of management fees and assume reinvestment of all distributions. Past performance is not a guide to or indication of future performance. The fund's benchmark is the S&P/ASX 200 Accumulation Index.

³Investment returns are based on exit to exit prices of Professional Selection units, are net of management fees and assume reinvestment of all distributions. Past performance is not a guide to or indication of future performance. The fund's benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

⁴The inception date of the Aviva Investors Professional Selection High Growth Shares Fund is 7 December 1999. Returns are calculated as at 31 December 2009. Net of fees the fund has generated an excess return of 4.8% p.a. above its benchmark since inception.

⁵The inception date of the Aviva Investors Professional Selection Small Companies Fund is 19 November 1999. Returns are calculated as at 31 December 2009. Net of fees the fund has generated an excess return of 6.5% p.a. above its benchmark since inception.

⁶The Lonsec Limited ("Lonsec") ABN 56 061 751 102 ratings (assigned June 2009 (PPL0106AU)) and May 2009 (PPL0107AU)) presented in this document are limited to "General Advice" and based solely on consideration of the investment merits of the financial product(s). They are not a recommendation to purchase, sell or hold the relevant product(s), and you should seek independent financial advice before investing in these products. The ratings are subject to change without notice and Lonsec assumes no obligation to update these documents following publication. Lonsec receives a fee from the fund manager for rating the products using comprehensive and objective criteria.

⁷To the extent that any ratings, opinions or other information of Standard & Poor's Information Services (Australia) Pty Ltd (ABN: 17 096 167 556, Australian Financial Services Licence Number: 258896) ("Standard & Poor's") constitutes general advice, this advice has been prepared by Standard & Poor's without taking into account any particular person's financial or investment objectives, financial situation or needs. Before acting on any advice, any person using the advice should consider its appropriateness having regard to their own or their clients' objectives, financial situation and needs. You should obtain a Product Disclosure Statement relating to the product and consider the statement before making any decision or recommendation about whether to acquire the product. Past performance is not a reliable indicator of future performance. Ratings can change or cease at any time and should not be relied upon without referring to the meaning of the rating. For more information regarding ratings please call S&P Customer Service on 1300 792 553 and also refer to Standard & Poor's Financial Services Guide at www.fundsinsights.com. Each analytic product or service of Standard & Poor's is based on information received by the analytic group responsible for such product or service. "S&P" and "Standard & Poor's" are trademarks of The McGraw-Hill Companies, Inc.

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⁸Zenith's ratings are prepared exclusively for clients of Zenith Investment Partners (Zenith). The rating is of a general nature and does not have regard to the particular circumstances or needs of any specific person who may read it. Each client should assess either personally or with the assistance of a licensed financial adviser whether the Zenith rating or advice is appropriate to their situation before making an investment decision. Opinions expressed may change without notice. Zenith accepts no liability, whether direct or indirect arising from the use of information contained in the rating.

⁹van Eyk Limited (ABN 99 010 664 632 AFSL 237917) (van Eyk) rates investment management capabilities rather than individual products. This rating is valid as at October 2008 for the Aviva Investors Small Companies Fund but can change or cease at anytime and should not be relied upon without referring to the meaning of the rating, as well as the full manager report, available to subscribers at www.irate.vaneyk.com.au. van Eyk has not directed the publication of Aviva Investors Australia Limited's rating. Past performance information is given for illustrative purposes only and should not be relied upon as it is not an indication of future performance. The rating is not intended to influence you and your client's investment decision in relation to any products managed by Aviva Investors Australia Limited and does not take into account your client's individual financial situation, needs or objectives. We recommend that you and your client do not rely on this rating in making an investment decision and instead you seek advice from an appropriate investment adviser and read the product disclosure statement before making such a decision.

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 3.4% for the December quarter, in line with the benchmark S&P/ASX 200 Accumulation Index return of 3.4%. The main contributors to performance for the portfolio over the quarter were overweight positions in AXA Asia Pacific Holdings and Transurban Group. Not owning Wesfarmers and being overweight in Brambles detracted from performance.

Australian Resources Fund - The fund delivered a return of 9.5% for the quarter, underperforming the benchmark S&P/ASX 300 Resources Accumulation Index of 9.7% by 0.2%. Positively contributing to performance during the quarter were zero holdings in Caltex Australia and Sims Metal Management. Main detractors from performance was not owning Aquila Resources and being overweight in Northern Iron.

Dividend Builder - The fund delivered a return of 1.2% for the quarter, outperforming the benchmark S&P/ASX 200 Industrials Accumulation Index of 0.9% by 0.3%. Not owning Macquarie Group and having an overweight position in Transurban Group positively contributed to performance. Being overweight in Westfield Group and not owning AXA Asia Pacific Holdings detracted from performance.

Elite Opportunities Fund - The fund returned 3.9% for the quarter, outperforming the benchmark S&P/ASX 200 Accumulation Index return of 3.4% by 0.5%. The main contributors to performance for the portfolio were overweight positions in AXA Asia Pacific Holdings and Rio Tinto. Main detractors from performance over the quarter were not owning Wesfarmers and being overweight Brambles.

High Growth Shares Fund - The fund returned 5.4% for the quarter, outperforming the benchmark S&P/ASX 200 Accumulation Index of 3.4% by 2.0%. Contributing to performance during the December quarter was an overweight position in AXA Asia Pacific Holdings and an underweight position in Macquarie Group. Main detractors from performance were overweight positions in Brambles and Graincorp.

Long/Short Equity Fund - The fund delivered a return of 4.9% for the quarter, outperforming the combined benchmark S&P/ASX 200 Accumulation Index (75%) and UBS Bank Bill Index (25%) of 2.8% by 2.1%. Positively contributing to performance during the quarter was an overweight position in AXA Asia Pacific Holdings and an underweight position in Macquarie Group. Detracting from performance was an overweight position in Brambles and being underweight BHP Billiton.

Small Companies Fund - The fund delivered a return of 7.2% for the quarter, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index of 4.9% by 2.3%. The main contributors to performance for the portfolio were overweight positions in Whitehaven Coal and Patties Foods. Detracting from performance was a zero holding in Aquila Resources and an overweight position in Ausenco.

Sustainable Investment Fund - The fund returned 4.0% for the quarter, outperforming the benchmark S&P/ASX 200 Accumulation Index of 3.4% by 0.6%. The main contributors to performance for the portfolio during the December quarter were overweight positions in AXA Asia Pacific Holdings and Rio Tinto. Stocks detracting from performance were overweight positions in Brambles and Billabong International.

Australian Shares Fund* - The fund delivered a return of 4.0% for the quarter, outperforming the benchmark S&P/ASX 200 Accumulation Index of 3.4% by 0.6%. The main contributors to performance for the portfolio over the quarter were overweight positions in AXA Asia Pacific Holdings and Transurban Group. Not owning Wesfarmers and being overweight in Brambles detracted from performance.

Listed Property Fund - The fund delivered a return of -3.4% for the quarter, outperforming the benchmark S&P/ASX 200 A-REIT Accumulation Index of -5.0% by 1.6%. Positively contributing to performance during the quarter were overweight positions in Transurban Group and Bunnings Warehouse Property Trust. Stocks detracting from performance were not owning Macquarie Office Trust and having an underweight position in Commonwealth Property Office Fund.

Premier Fixed Income Fund - The fund returned 1.6% for the quarter to outperform the benchmark¹ return of 1.1% by 0.5%. The outperformance came mainly from the fund's allocation to global high yield which performed strongly over the period.

High Yield Fund* - The fund outperformed its benchmark return delivering a positive return of 3.6% versus the benchmark² return of 1.4%. For the third quarter in a row the fund continued to outperform the broader composite bond index, driven in particular by ASX listed hybrids such as the Multiplex SITES, IAG Finance (NZ) Ltd Perpetual Preference Notes and the Australand ASSETS as the memory of the GFC faded from investors minds. On a cautionary note however, a number of retail mortgage backed securities did detract from value as expectations for repayment weakened off the back of the RBA raising interest rates by a total of 0.75% during the quarter, as well as the banks raising their base mortgage rates above the RBA movement during December

[#] 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 31 December 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	3.4	38.6	2.5	10.6	11.9
	Benchmark Return	3.4	37.0	-0.7	8.4	10.6
	Excess Return	0.0	1.6	3.2	2.2	1.3
	Net Return	3.2	37.4	1.6	9.6	10.9
Australian Resources Fund Inception date: 03/03/2008	Gross Return	9.5	51.5	-	-	0.2
	Benchmark Return	9.7	46.7	-	-	-3.3
	Excess Return	-0.2	4.8	-	-	3.5
	Net Return	9.3	49.2	-	-	-1.1
Dividend Builder Inception date: 06/09/2005	Gross Return	1.2	38.9	-2.3	-	4.8
	Benchmark Return	0.9	33.8	-4.3	-	3.9
	Excess Return	0.3	5.1	2.0	-	0.9
	Net Return	1.0	38.1	-2.9	-	4.2
Elite Opportunities Fund Inception date: 18/11/2002	Gross Return	3.9	44.5	4.9	12.1	16.2
	Benchmark Return	3.4	37.0	-0.7	8.4	11.7
	Excess Return	0.5	7.5	5.6	3.7	4.5
	Net Return	3.8	43.1	4.1	11.3	15.2
High Growth Shares Fund Inception date: 07/12/1999	Gross Return	5.4	45.7	7.5	12.9	15.6
	Benchmark Return	3.4	37.0	-0.7	8.4	8.9
	Excess Return	2.0	8.7	8.2	4.5	6.7
	Net Return	4.9	43.5	6.1	11.5	13.7
Long/Short Equity Fund Inception date: 27/08/2004	Gross Return	4.9	37.1	9.8	14.6	16.7
	Benchmark Return	2.8	28.1	1.6	9.8	12.2
	Excess Return	2.1	9.0	8.2	4.8	4.5
	Net Return	4.4	35.0	8.2	13.3	15.5
Small Companies Fund Inception date: 19/11/1999	Gross Return	7.2	76.5	4.9	14.3	14.1
	Benchmark Return	4.9	57.4	-4.8	6.7	6.5
	Excess Return	2.3	19.1	9.7	7.6	7.6
	Net Return	6.9	74.7	3.9	13.2	13.0
Sustainable Investment Fund Inception date: 16/02/2006	Gross Return	4.0	38.8	4.3	-	6.7
	Benchmark Return	3.4	37.0	-0.8	-	4.8
	Excess Return	0.6	1.8	5.1	-	1.9
	Net Return	3.7	37.7	3.5	-	5.8
Australian Shares Fund* Inception date: 25/01/2000	Gross Return	4.0	39.8	2.8	10.6	10.5
	Benchmark Return	3.4	37.0	-0.7	8.4	9.1
	Excess Return	0.6	2.8	3.5	2.2	1.4
	Net Return	3.8	38.6	1.9	9.7	9.5
Listed Property						
Listed Property Fund Inception date: 28/02/1994	Gross Return	-3.4	8.8	-17.4	-3.0	7.5
	Benchmark Return	-5.0	7.9	-23.1	-7.3	5.8
	Excess Return	1.6	0.9	5.7	4.3	1.7
	Net Return	-3.6	8.0	-18.0	-3.7	6.7
Fixed Income						
Premier Fixed Income Fund Inception date: 31/05/2000	Gross Return	1.6	5.2	6.7	6.2	6.8
	Benchmark Return	1.1	3.4	7.1	6.2	6.7
	Excess Return	0.5	1.8	-0.4	0.0	0.1
	Net Return	1.5	4.7	6.3	5.8	6.5
High Yield Fund* Inception date: 21/01/2004	Gross Return	3.6	14.7	1.9	3.8	4.5
	Benchmark Return	1.4	3.9	6.9	6.0	6.1
	Excess Return	2.2	10.8	-5.0	-2.2	-1.6
	Net Return	3.4	14.0	1.2	3.1	3.8

* Closed to new investments

Disclaimer: All net returns are based on exit to exit unit prices for Professional Selection units, are net of fees and assume the reinvestment of income. Past performance is not a guide to or indication of future performance. At Aviva Investors' discretion, the management and/or performance fee may be partly rebated to professional, sophisticated or wholesale investors. The above information is of a general nature and has been prepared without taking account of your individual investment objectives, financial situation or particular investment needs. It is not intended as financial advice to retail clients. Before making an investment decision, you should consider the appropriateness of the information, having regard to your objectives, financial situation and needs. We recommend you consult with your financial adviser, who can help you determine how best to achieve your financial goals and whether investing in a fund is appropriate for you. Investment in the Aviva Investors Investment Funds will only be made upon receipt of a completed application form from the current PDS, a copy of which can be obtained from Aviva Investors. Aviva Investors Australia Limited ABN 85 066 081 114. AFS Licence No 234483. Level 28 Freshwater Place, 2 Southbank Boulevard, Southbank VIC 3006 GPO Box 2007s, Melbourne 3001 Telephone: (03) 9220 0300 Facsimile: (03) 9220 0333 Email: investorservices.au@avivainvestors.com Website: www.avivainvestors.com.au Part of the international Aviva plc group.

Product Update

Premier Fixed Income Fund

Over the past year we have made a number of enhancements to the Aviva Investors Premier Fixed Income Fund. This has been made possible through the integration of Aviva Investors into a global asset manager, which has allowed us to access the full fixed income capabilities of the group.

Earlier this year we replaced the previously domestic-only high yield allocation with an allocation to a portfolio of global high yield securities. At the same time we replaced the previously passively managed exposure to global fixed income with an allocation to an actively managed global aggregate portfolio.

In order to maintain consistency of philosophy and process across the entire portfolio, and to fully leverage the full resources of the group, we are now transitioning the remaining components of the fund to our London fixed income team. Our global fixed income teams cover the full fixed income set including gilts, corporate bonds, global sovereigns, index-linked bonds, emerging markets (hard and local currency debt) and high-yield securities.

Aviva Investors has one of the largest London-based fixed income teams and our affiliates in the US, Australia and Europe add to the scale and resources of our operations. We draw further insights from Aviva Investors' strategy team which provides specialist research on developments in the global economy.

We firmly believe that the improved global reach and access to additional resources will provide investors with an improved and fully diversified fixed income offering, capable of exploiting market inefficiencies across the full fixed income set while still maintaining a domestic focus for investors.

This change will not affect the fund's current structure or the fund's current risk profile. The ability to access the full fixed income set does, however, add greater potential for additional alpha generation.

High Growth Shares Fund & Long/Short Equity Fund

The treatment of income generated by managed investment schemes is currently under review by the Australian Government. This review proposes to allow eligible funds to make an irrevocable election for the gains and losses from the disposal of assets to be treated on capital account.

Currently, gains and losses on the disposal of assets within the Aviva Investors High Growth Shares Fund and Aviva Investors Long/Short Equity Fund are treated on revenue account and hence not entitled to any potential capital gains tax (CGT) discount.

Aviva Investors intends to make the election such that the High Growth Shares Fund and Long/Short Equity Fund will have their assets treated on capital account going forward. Under this election, both funds will be entitled to the CGT discount on disposal of assets that have been held for more than 12 months.

New fund launch - Global Tactical Asset Allocation Fund (GTAA)

In December, we launched the Aviva Investors Global Tactical Asset Allocation Fund. The fund follows a tactical asset allocation (TAA) strategy which seeks to evaluate the attractiveness of the range of asset classes across all regions and countries, and to position a portfolio to benefit from short term pricing inefficiencies.

The fund may take both long and covered short positions in a diversified range of assets including cash, equities, bonds, currencies, property and commodities, through the use of cash settled financial derivative instruments.

The fund's objective is to provide investors with an absolute return under all market conditions through a combination of capital appreciation and income. The fund will be made available to investors via PDS from March 2010.

We recommend you consult with your financial adviser prior to making any investment decision.

Market Review

The global economy has stabilised and the outlook for 2010 continues to improve. Labour markets however remain weak, evidenced by the US and EU-wide unemployment rates sitting at 10.0%. Job losses though appear to be abating, and latest domestic jobs figures have job ads increasing significantly.

Confirmation that recovery had begun almost everywhere and that Australia had avoided the worst of the downturn saw the Reserve Bank of Australia (RBA) flag that the time for "emergency" low interest rate levels had passed. Accordingly there was a hike of 0.25% at each of the last three RBA monthly meetings.

The December quarter saw the Australian equity market operate within a relatively small trading range compared to previous quarters, gaining 3.4% (S&P/ASX 200 Accumulation Index). The last two weeks of the year ensured a positive return for the quarter, and that 2009 would end at its highest point. Despite this though, the market is still just shy of 30% lower than the highs of November 2007.

Acquisition activity increased during the quarter, the most notable being AMP making a bid for AXA Asia Pacific Holdings, only to be pipped by a larger bid from National Australia Bank. Equity issuance continued albeit in a less frenzied fashion, with Woodside Petroleum, Oil Search and CSR among those raising capital during the quarter.

On a sector basis, banks (down 3.1%) performed poorly on the back of three consecutive rate hikes and concerns over funding costs and regulatory change, while Resources (up 9.8%) bounced back strongly after a sustained period of underperformance.

Australia lagged most of the major global markets in the December quarter, with the US posting its third consecutive positive quarter, up 5.5% (S&P 500). This result marked a recovery of 66.7% from the lows of back in March. Elsewhere, the UK's FTSE 100 was up 5.4%, Japan's Nikkei 225 gained 4.1%, and the German DAX was up 5.0%.