

Investor Update

12 months to 31 December 2009



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 1998 Aviva Investors launched the Small Companies Fund, while in late 1999 the Aviva Investors High Growth Shares Fund was launched. This past quarter has now 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 175% on that original \$10,000 investment; significantly more than their respective benchmarks.

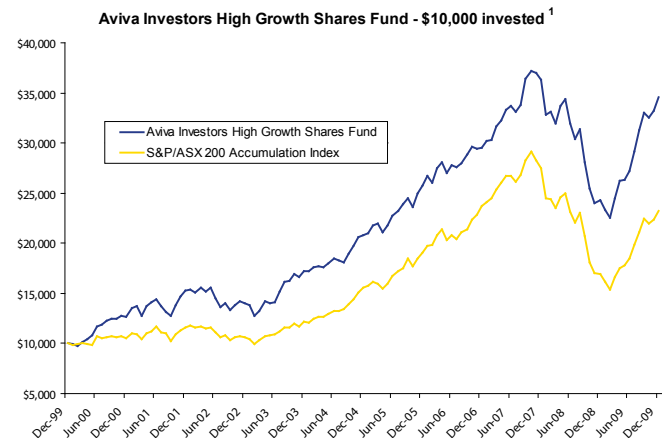


Chart 1 - Aviva Investors High Growth Shares Fund

Source: Aviva Investors

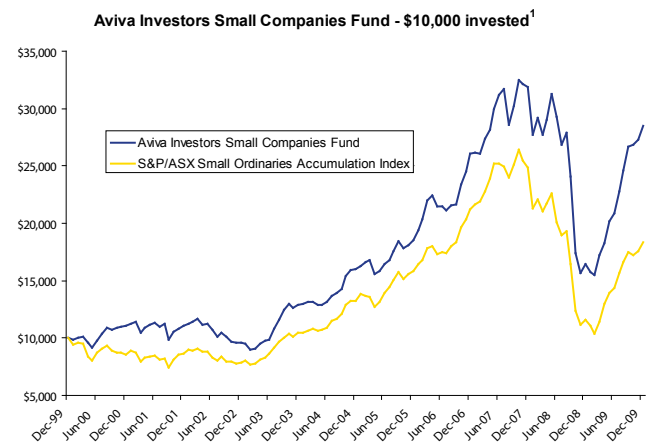


Chart 2 - Aviva Investors Small Companies Fund

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	45.6	37.0	8.6	42.5
3 years p.a.	7.6	-0.7	8.3	5.4
5 years p.a.	12.9	8.4	4.5	10.7
10 years p.a.	15.5	8.8	6.7	12.8
Since inception p.a.	15.7	9.0	6.7	13.0

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	73.1
3 years p.a.	5.0	-4.8	9.8	3.0
5 years p.a.	14.3	6.7	7.6	12.1
10 years p.a.	13.1	6.2	6.9	11.0
Since inception p.a.	15.8	7.4	8.4	13.6

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 8.4% p.a. (gross of fees) over its benchmark, since its inception in January 1998⁵. 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 Personal Choice units, are net of management fees and assume reinvestment of all distributions.

²Investment returns are based on exit to exit prices of Personal Choice 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 Personal Choice 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 Personal Choice High Growth Shares Fund is 2 December 1999. Returns are calculated as at 31 December 2009. Net of fees the fund has generated an excess return of 4.0% p.a. above its benchmark since inception.

⁵The inception date of the Aviva Investors Personal Choice Small Companies Fund is 5 January 1998. Returns are calculated as at 31 December 2009. Net of fees the fund has generated an excess return of 6.2% 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.fundinsights.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.

2009 Market Review

Economy

2009 was a year of recovery, firstly in equity markets and then in the economy. The year began with fears that a complete financial meltdown would occur worldwide as enormous dislocation was seen in all asset classes. Unprecedented fiscal and monetary stimulus measures were swiftly implemented both locally and globally to fend off the nasty effects of the Global Financial Crisis. The Reserve Bank of Australia (RBA) continued its easing of the cash rate, reaching a record low of 3% in April.

Australia was one of the very few global economies to avoid “technical” recession, with the December quarter of 2008 the only quarter of GDP contraction. We were one of the few advanced economies to record positive GDP growth over the last year, a result of a sound financial system, solid export demand and the Government stimulus measures. This economic recovery, further evidenced by stronger employment numbers, saw the RBA reverse its monetary policy stance later in the year, tightening in each month of the last quarter of 2009.

Sharemarket

The domestic sharemarket rallied hard in 2009, gaining 37.0% (S&P/ASX 200 Accumulation Index) to combat the record declines in 2008. The bear market did not let up until early March, as the worldwide economic stimulus packages started to gain traction.

There were a wave of capital raisings as companies, desperate to repair balance sheets, reacted to the high cost and limited availability of debt funding. M&A activity increased later in the year, and IPOs also began to return, however, certainly not to previous levels. For the year, 39 companies listed on the ASX compared to 68 in 2008, seemingly a direct result of the GFC. Myer was the largest to list, as there was a preference for smaller floats as companies who struggled to secure affordable refinancing waited until the IPO market improved.

The good news extended overseas, as all major markets enjoyed strong returns. For the year, the US S&P 500 gained 23.5%, Japan's Nikkei 225 was up 19.5%, and the UK's FTSE 100 gained 22.1%.

Fixed Income

Fixed income markets faced a challenging year in 2009, as global growth prospects increased as the global economic recovery set in, translating into increased investor risk appetite. As is the norm when equity markets recover, as they did throughout most of 2009, fixed income tends to fade into the background.

Domestically, the “flight to quality” that occurred throughout the GFC unwound following the bottoming of equity markets. By Q4 the RBA had begun tightening monetary policy, after stating that the time for “emergency” low interest rate levels had passed. Australia was in fact the first of the advanced economies to raise rates, hiking the cash rate by 0.25% three times in the final quarter of 2009.

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

Australian Shares Fund - the fund delivered a return of 25.8% for the six months to December 31, outperforming the benchmark S&P/ASX 200 Accumulation Index of 25.6% by 0.2%. Over the past 12 months the fund outperformed its benchmark by 2.8%.

The main contributors to performance during 2009 were being underweight QBE Insurance Group and holding an overweight position in Wesfarmers. Stocks detracting from performance were overweight positions in CSL and Sonic Healthcare.

Elite Opportunities Shares Fund - the fund returned 28.6% for the half year, outperforming the benchmark S&P/ASX 200 Accumulation Index return of 25.6% by 3.0%, while over the past 12 months the fund outperformed the index by 6.5%

Stocks positively contributing to performance in 2009 were overweight positions in Rio Tinto and WorleyParsons. Being overweight Telstra Corporation and holding an underweight position in Commonwealth Bank detracted from performance over the year.

High Growth Shares Fund - the fund returned 28.6% for the six months, outperforming the benchmark S&P/ASX 200 Accumulation Index of 25.6% by 3.0%, while over the past 12 months the fund outperformed the index by 8.6%.

The main contributors to performance during the calendar year were overweight positions in Rio Tinto and BlueScope Steel. Stocks detracting from performance were overweight positions in Telstra Corporation and QBE Insurance Group.

Listed Property Fund* - the fund delivered a return of 20.5% for the six months to December 31, underperforming the benchmark S&P/ASX 200 A-REIT Accumulation Index of 23.9% by 3.4%. Over the past 12 months the fund outperformed the index by 0.9%.

The main contributors to performance in 2009 were underweight positions in GPT Group and ING Office Fund. Not owning Macquarie CountryWide Trust and being underweight Stockland detracted from performance over the year.

Small Companies Fund* - the fund delivered a return of 37.5% for the half year, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index of 27.8% by 9.7%, while over the past 12 months the fund outperformed the benchmark by 19.1%.

The main contributors to performance over the calendar year were overweight holdings in NRW Holdings and Citadel Resource Group. Stocks detracting from performance were overweight positions in Centennial Coal Company and Tassal Group.

[#] All returns are gross of fees. Please refer to page 4 of the Investor Update for a summary returns which are net of fees.

* Closed to new investments

Aviva Investors Investment Returns

Performance to 31 December 2009

	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	Since Inception % p.a.	
Australian Equities						
Australian Shares Fund	Gross Return	25.8	39.8	2.9	10.6	11.5
Inception date: 28/02/1987	Benchmark Return	25.6	37.0	-0.7	8.4	9.4
	Excess Return	0.2	2.8	3.6	2.2	2.1
	Net Return	24.6	37.1	0.9	8.5	9.5
Elite Opportunities Shares Fund	Gross Return	28.6	43.5	5.8	12.4	16.5
Inception date: 29/11/2002	Benchmark Return	25.6	37.0	-0.7	8.4	11.5
	Excess Return	3.0	6.5	6.5	4.0	5.0
	Net Return	27.7	41.5	4.3	10.9	14.9
High Growth Shares Fund	Gross Return	28.6	45.6	7.6	12.9	15.7
Inception date: 02/12/1999	Benchmark Return	25.6	37.0	-0.7	8.4	9.0
	Excess Return	3.0	8.6	8.3	4.5	6.7
	Net Return	27.3	42.5	5.4	10.7	13.0
Small Companies Fund*	Gross Return	37.5	76.5	5.0	14.3	15.8
Inception date: 05/01/1998	Benchmark Return	27.8	57.4	-4.8	6.7	7.4
	Excess Return	9.7	19.1	9.8	7.6	8.4
	Net Return	36.2	73.1	3.0	12.1	13.6
Listed Property						
Listed Property Fund*	Gross Return	20.5	8.8	-17.3	-2.9	6.7
Inception date: 20/01/1998	Benchmark Return	23.9	7.9	-23.1	-7.3	4.1
	Excess Return	-3.4	0.9	5.8	4.4	2.6
	Net Return	19.3	6.7	-18.9	-4.8	4.7

*Closed to new Personal Choice investments.

Disclaimer: All returns are based on exit to exit unit prices for Personal Choice 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.

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Product Update

High Growth Shares 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 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 will have its assets treated on capital account going forward. Under this election, the fund 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 from March 2010 as part of our Professional Selection range of funds.

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