

Investor Update

12 months to 30 June 2010



Stock Story - Transurban Group

The investment process that is applied to the Elite Opportunities Fund consists of four key principles:

- a bottom-up investment style - investment decisions are based on in-depth, proprietary research and analysis;
- being selectively contrarian – we aim to invest in companies where the current share price does not fully reflect our view of the potential value of that company's business;
- extensive company visits – we gain a first-hand understanding of businesses and the industries in which they operate by meeting with management on a one-on-one basis;
- The ability to trade shorter term opportunities when they arise.

The following stock story on the Transurban Group provides a good illustration of how we apply this process to investment decisions.

Company Overview

Transurban Group owns and operates toll roads in Australia and North America. The company was formed in 1996 as a single purpose business with one asset – Melbourne's CityLink. Since then, it has grown to be a well diversified portfolio of mature, high quality toll road assets. The company has a stake in seven toll roads and has recently signed an agreement to purchase the Lane Cove Tunnel in Sydney.

Transurban's main toll road assets are CityLink in Melbourne and the Hills M2, Westlink M7, Eastern Distributor and M5 Motorway in Sydney. The company also has an interest in two tollways in Virginia, USA.

What made Transurban an attractive investment?

Transurban is a fairly straightforward business as the company primarily builds and operates toll roads. Projects are usually entered into as joint ventures with governments and the concessions granted to Transurban by these governments have tended to be quite generous.

Transurban's cost base is stable and well publicised. Once a toll road has been completed, the on-going costs are low (mainly maintenance) and they tend not to increase rapidly. Costs can rise if the company chooses to expand a road or add more lanes to a tollway but Transurban is in the process of completing some major expansion projects hence we expect costs to be fairly predictable looking forward.

Transurban's main source of revenue is the toll paid by road users. This revenue stream has low volatility as traffic flows on toll roads are not very sensitive to the economic cycle. This can be illustrated by the fact that Transurban only experienced a small fall in traffic volumes during the 2008 global financial crisis.

Transurban's revenues are expected to continue to grow steadily for several reasons:

- On-going population growth should generate higher traffic volumes;
- the recent CityLink upgrade is starting to deliver higher traffic flows and enhancements to the M2 & M5 in Sydney should be completed in 2012;
- the tolls that Transurban charges road users are usually indexed to inflation. This suggests toll growth of around 3% per annum given the current inflation rate.

This indexation of tolls is a key difference between Transurban and other toll road companies. It significantly increases the attractiveness of the company as a long term investment as it suggests revenue growth should comfortably exceed cost growth, leading to wider margins overtime.

Since 2007, Transurban has also had a policy of paying all of its free cash flow to shareholders in the form of dividends. This means the company is offering an attractive dividend stream that should rise in value overtime.

Our favoured method of valuing Transurban is to use a discounted cash flow analysis (DCF) as it enables us to explicitly incorporate our long term assumptions for traffic volumes and toll growth. Using our DCF model and discounting with the company's weighted average cost of capital, our valuation of the company suggested a target price of just over \$6.

By contrast, the market's valuation of Transurban tends to be lower (around \$5) as many participants use a dividend discount model (DDM) to value the company. This method only incorporates discounted future dividends and does not enable projected traffic and toll growth to be explicitly modelled. We believe this approach does not fully capture Transurban's long term potential.

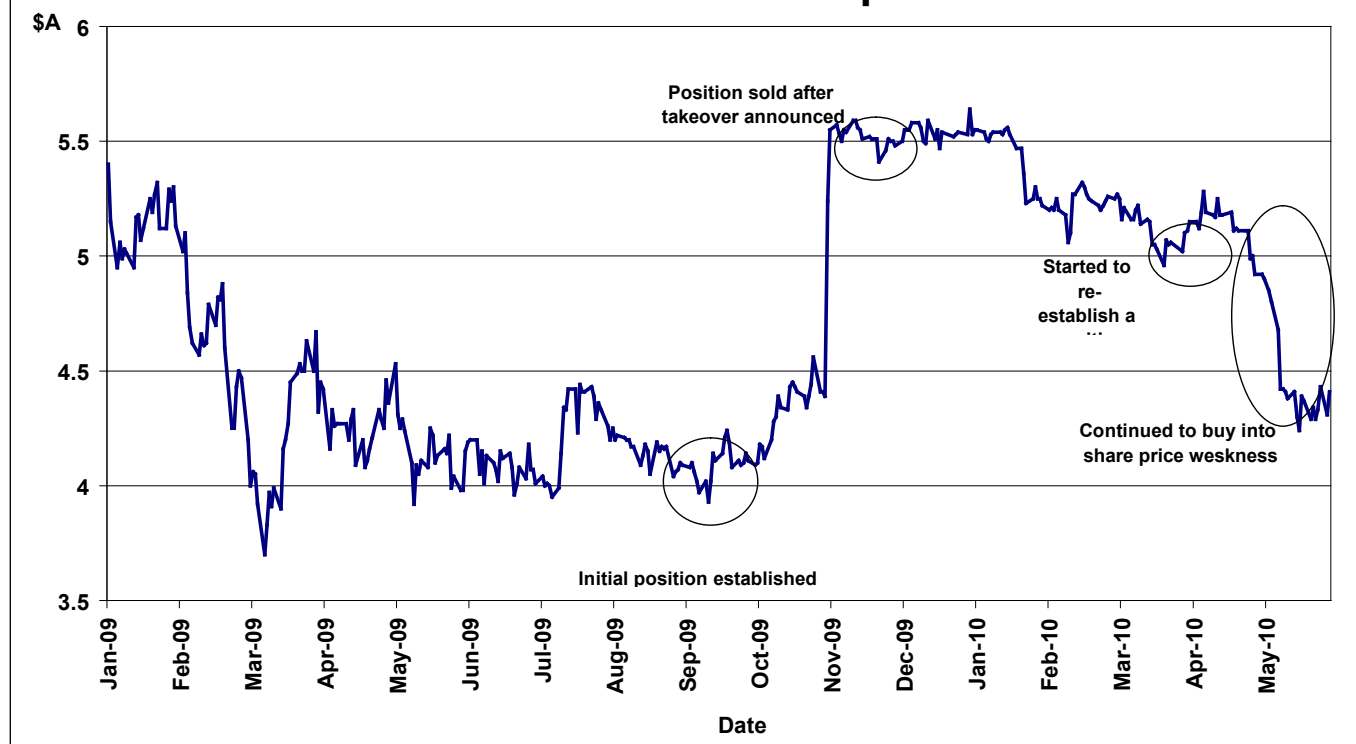
The short term trade

In September 2009, the Elite Opportunities Fund started to build a long term position in Transurban when the stock was trading around \$4. Our research suggested a valuation closer to \$6 was appropriate, so the company appeared to have significant upside potential.

Soon after this position was established, a consortium of Canadian pension funds (comprising Transurban's three largest share holders), announced its intention to take over the business. Transurban's share price immediately jumped to around \$5.50.

At this stage, the takeover bid was not finalised but Transurban's share price was approaching our target price. Although we were still positive on the company over the longer term, we took the opportunity to trade out of the position and lock in a profit for the fund.

Transurban Group



Re-establishing a long term position

In early 2010, Transurban's share price drifted back towards \$5, so we started to re-establish a long term position based on our analysis of the underlying value of the business. Having met with Transurban management four times since our initial investment in September 2009, we were convinced that our analysis was accurate and the outlook for the company was sound.

Two events then occurred that pushed the share price lower:

- In May 2010, Transurban won a tender to purchase the Lane Cove Tunnel in Sydney. The company announced a capital raising worth \$542.3 million to fund this acquisition. The offer price for the capital raising was \$4.60 per share.
- On 11 & 12 May, the Transurban board received two formal takeover bids from the Canadian consortium. Both these bids were rejected as the Transurban board did not believe the deals were sufficient to compensate share holders for the long term value inherent in the company. One member of the Canadian consortium was dissatisfied with this decision and subsequently liquidated its large Transurban holding, pushing the share price lower.

In contrarian fashion, we bought more Transurban shares during this period of weakness as we viewed these two events as merely short term drivers of the share price. At around \$4.40, the company was very attractive relative to our \$6 target price.

Looking forward

The outlook for Transurban remains positive and we believe our target price of \$6 is achievable. The company has a low, stable, predictable cost base. Its revenue growth exceeds cost growth and is indexed to inflation. The company is offering investors a very attractive dividend stream and there remains the possibility that an improved takeover bid will emerge at sometime in the future.

Transurban is an example of our process in action. The decision to invest was based on in-depth proprietary research and extensive meetings with management. The position was established during a period of share price weakness when we did not believe the share price fully reflected our view of the potential value of the business. The stock is a core holding in the Elite Opportunities Fund but we have been able to trade the position to enhance returns.

2009-10 Market Review

Economy

Most central banks remained on hold with monetary policy throughout the financial year with the range in the US Federal Funds rate being 0 – 0.25%. Growth did recover in the US but unemployment stayed stubbornly high, income growth was modest and the outlook for inflation remained subdued. Growth in Europe also improved but concerns over sovereign debt burdens in the region initiated a round of austerity measures in early 2010. This should constrain growth in the coming year. The Chinese economy performed strongly in response to solid investment and private consumption growth. Some tightening of Chinese policy was necessary to prevent the economy over-heating.

In Australia, the Reserve Bank increased the official cash rate from a trough of 3% in September 2009 to its current 4.5% level. This reflected the relatively fast pace of growth in Australia compared to the rest of the world and an acceleration in the inflation rate above the RBA's 2-3% target band. The RBA became more cautious towards the end of the financial year in response to European debt concerns and signs that the global recovery may be stalling. Policy was put on-hold in June to allow the RBA to assess global developments.

Sharemarket

The Australian sharemarket returned 13.1% over the financial year but this masks quite volatile trading. In the six months to December 2009 the market rose 25.6% but a sharp turnaround saw the market fall 9.9% in the second half of the year. The market was initially supported by stronger domestic growth and favourable earnings but concerns over European sovereign debt and weaker global growth data negatively affected sentiment in the second half of the year.

The banking sector outperformed (+15.4%) but much of this strength was in the first half of the year. Defensive sectors such as consumer staples (+11.2%) and property trusts (+12.6%) also performed relatively well. Resources (+7.7) were constrained by weakness in energy stocks (-4.3%) and the government's proposed Resource Super Profits Tax that was announced in May.

The major global markets were also volatile but most ended the year stronger. The S&P500 rose 12.1% whilst the FTSE 100 rose 15.7% and the Euro Stoxx 50 gained 7.1%. The exception was Japan where the Nikkei fell 5.8%.

Fixed Income

Bond markets experienced difficult trading conditions in the first half of the financial year as global growth strengthened. This was particularly true of Australian bonds as the RBA was tightening policy and domestic inflation was above its target band.

A turning point for performance came in May when European sovereign debt concerns, signs of weaker growth and the sell-off in global sharemarkets caused "flight to quality" buying in bond markets. This enabled bonds to deliver positive returns over the financial year. The exception was bonds in peripheral Europe where debt default concerns negatively impacted performance.

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 -8.5% for the six months to June 30, outperforming the benchmark S&P/ASX 200 Accumulation Index return of -9.9% by 1.4%. Over the past 12 months, the fund outperformed its benchmark by 2.0%.

The main contributors to performance over the past year were overweight positions in AXA Asia Pacific and Amcor and an underweight position in BlueScope Steel. Being overweight Woolworths and underweight Wesfarmers detracted from yearly performance.

Elite Opportunities Shares Fund - The fund returned -9.2% for the six months to June 30, outperforming the benchmark S&P/ASX 200 Accumulation Index return of -9.9% by 0.7%. Over the past 12 months, the fund outperformed its benchmark by 3.7%.

Overweight positions in AXA Asia Pacific, James Hardie Industries, Amcor and Rio Tinto were the main positive contributors to performance over the year. An underweight position in the Commonwealth Bank and an overweight position in Woolworths detracted from performance over the past 12 months.

High Growth Shares Fund - The fund returned -10.4% for the six months to June 30, underperforming the benchmark S&P/ASX 200 Accumulation Index return of -9.9% by 0.5%. Over the past 12 months, the fund outperformed its benchmark by 2.1%.

The main contributors to performance over the year were overweight positions in Lihir Gold, AXA Asia Pacific, Asciano Group and Amcor. Detracting from performance were overweight positions in Woolworths, AWE and Sonic Healthcare.

Listed Property Fund* - the fund delivered a return of -1.7% for the six months to June 30, outperforming the benchmark S&P/ASX 200 A-REIT Accumulation Index return of -2.8% by 1.1%. Over the past 12 months the fund underperformed the index by 2.0%.

The fund benefitted from not holding Ardent Leisure Group and Charter Hall Retail over the year as these stocks were particularly weak. An overweight position in Peet also added to performance. The main detractors from performance over the year were underweight positions in Goodman Group and Mirvac.

Small Companies Fund* - the fund delivered a return of -15.7% for the half year, underperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index return of -13.0% by 2.7%. Performance was stronger over the 12 months to June 30 with the fund outperforming the benchmark by 4.8%.

The main contributors to performance over the past year were overweight positions in McMillan Shakespeare and Citadel Resource Group. Overweight positions in Bauxite Resources and Ausenco were the main detractors from yearly performance.

[#] 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 30 June 2010

		6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	Since Inception % p.a.
Australian Equities						
Australian Shares Fund Inception date: 28/02/1987	Gross Return	-8.5	15.1	-4.0	6.9	10.8
	Benchmark Return	-9.9	13.1	-7.9	4.5	8.7
	Excess Return	1.4	2.0	3.9	2.4	2.1
	Net Return	-9.4	12.8	-5.9	4.9	8.9
Elite Opportunities Shares Fund Inception date: 29/11/2002	Gross Return	-9.2	16.8	-1.0	8.7	13.9
	Benchmark Return	-9.9	13.1	-7.9	4.5	9.2
	Excess Return	0.7	3.7	6.9	4.2	4.7
	Net Return	-9.8	15.2	-2.4	7.2	12.3
High Growth Shares Fund Inception date: 02/12/1999	Gross Return	-10.4	15.2	-1.0	8.3	13.7
	Benchmark Return	-9.9	13.1	-7.9	4.5	7.5
	Excess Return	-0.5	2.1	6.9	3.8	6.2
	Net Return	-11.2	13.0	-3.1	6.2	11.1
Small Companies Fund* Inception date: 05/01/1998	Gross Return	-15.7	16.0	-6.9	9.7	13.5
	Benchmark Return	-13.0	11.2	-14.2	2.7	5.9
	Excess Return	-2.7	4.8	7.3	7.0	7.6
	Net Return	-16.5	13.7	-8.7	7.6	11.4
Listed Property						
Listed Property Fund* Inception date: 20/01/1998	Gross Return	-1.7	18.4	-18.6	-3.8	6.3
	Benchmark Return	-2.8	20.4	-23.8	-8.0	3.7
	Excess Return	1.1	-2.0	5.2	4.2	2.6
	Net Return	-2.7	16.1	-20.2	-5.6	4.3

*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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Portfolio Update

High Growth Shares Fund

As mentioned in our previous correspondence, the fund is taxed on revenue account basis. The Australian Government has recently reviewed the treatment of income generated by managed investment schemes. Following the outcome of this review, it is our intention for the fund to maintain the current tax treatment of assets within the fund and remain on revenue account.

On revenue account treatment, any realised losses within the fund must be offset by realised trading gains and income before a distribution can be paid to investors. Despite improved market conditions and strong fund performance, losses carried forward from the 2008/09 financial year are yet to be fully offset. As such, you will not be receiving an annual tax statement for the 2009/10 financial year.

While the fund's tax position continues to improve, we cannot accurately assess when the fund will be in a position to recommence quarterly income distributions. We will keep you informed of any changes to the fund's distribution position over the course of the new financial year.