

Fund objective

To outperform the CAPS Balanced Median by 1.5% p.a. over rolling three year periods, before charges

Fund manager

Yoram Lustig

Benchmark

CAPS Balanced Median

Fund size

£134.56m

Launch date

29 December 1972

Further information

www.avivainvestors.com

Fund summary

The Balanced Managed Fund has a risk profile that is designed for pension funds with an average level of maturity (i.e. neither very cashflow positive nor significantly negative).

The fund is actively managed in terms of both asset allocation and stock selection.

The fund is expected to produce most of its added value through asset allocation (approximately 80%), with the balance of 20% being achieved through stock selection.

Fund comment

The fund returned 5.7 per cent (gross of fees) as the value of its investments in equities, bonds and property all advanced. The fund underperformed its peer group by 0.5 percentage points.

Fund performance was driven primarily by asset allocation decisions, especially between equity markets. An underweight in Japanese equities was especially profitable as this market was among the few around the world to deliver negative returns on the quarter. An underweight in European equities likewise boosted relative returns as shares were restrained by mounting concern the euro zone could be heading back into recession. The fund's overweight position in UK equities was another positive factor.

The fund's relative lack of exposure to international bonds also proved astute as several less-highly rated European markets suffered sizeable falls as fears that any one of a number of European nations could default continued to mount. An underweight in cash further lifted relative returns.

On the downside, underweight exposure to North American equities hurt as the US stock market spearheaded the global rally. The fund's overweight position in UK corporate debt proved costly as this asset class delivered lacklustre returns relative to the benchmark, while stock selection within equities was also negative.

The fund is overweight UK equities in view of the attractive dividend yields on offer. It is simultaneously underweight European and US markets. The former is expected to underperform given the poor economic environment, while US shares offer paltry yields

Source: Aviva Investor/ Bloomberg as at 31 December 2011
Basis: Mid to mid, Income reinvested, before charge, in Sterling

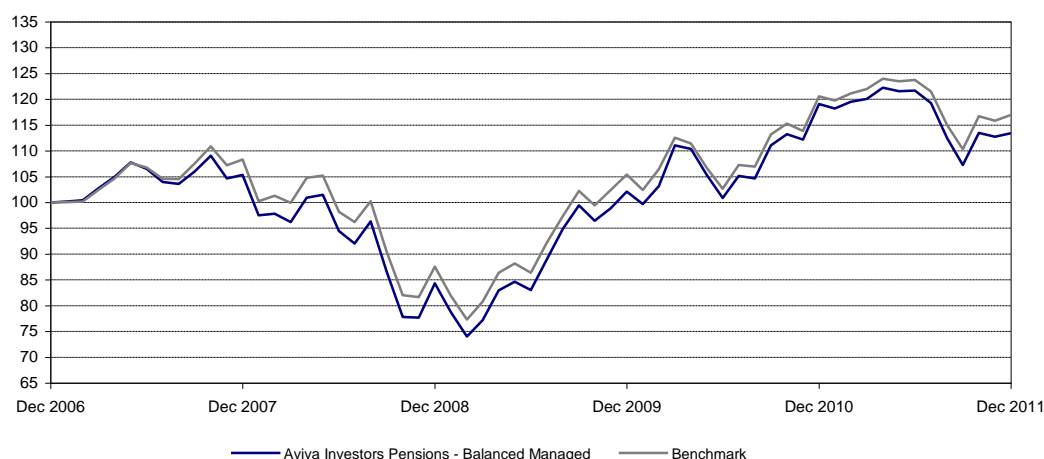
Fund performance (%)

	3 Months	Year To Date	1 Year	3 yrs	Annualised	
					5 yrs	10 yrs
Fund	5.7	-4.8	-4.8	10.4	2.6	4.8
Benchmark	6.3	-4.9	-4.9	10.1	2.9	5.5
Relative †	-0.5	0.1	0.1	0.3	-0.3	-0.7

Past performance is not a guide to the future

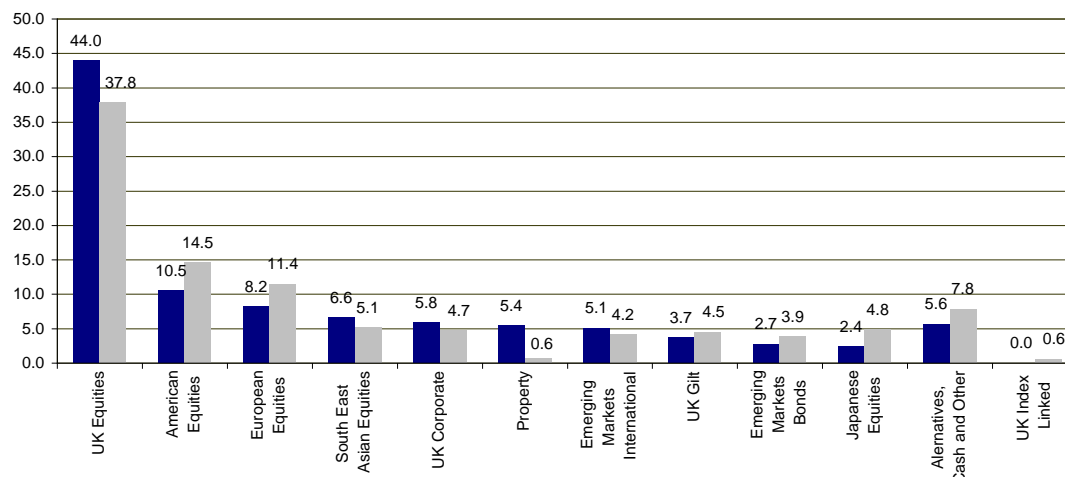
Source: Aviva Investor/ Lipper Hindsight as at 31 December 2011
Basis: Mid to mid, Income reinvested, before charge, in Sterling

Fund performance vs Benchmark (%) 5 years



Source: Aviva Investor/ Lipper Hindsight as at 31 December 2011
Basis: Mid to mid, Income reinvested, before charge, in Sterling

Distribution % (fund ■ vs benchmark ■)



Source: Aviva Investors/BDRISIS, as at 31 December 2011
Basis: Excludes cash and unclassified

Asset Allocation Rationales

Favour

UK equities – Long-term expected return is higher than other developed markets driven by a higher dividend yield

Property – Rental yields are close to fair value but property offers diversification benefits versus equities and attractive return potential relative to gilts and cash

Sterling bonds – UK credit offer attractive yields relative to gilts and cash on a default-adjusted basis

Do not favour

North American and Japanese equities - Carry very low dividend yields hampering long-term return prospects

Overseas bonds – Low yields across most developed markets do not justify a high allocation

Past performance is not a guide to the future

† Performance has been calculated on a geometric relative basis

There are two methods of comparing a fund against a benchmark, the geometric relative or arithmetic, 'simple difference'. Aviva Investors uses the geometric relative. This is a ratio of out/under performance rather than simply the Fund Return less Benchmark Return. We believe this is a more realistic measure of out/underperformance particularly for comparisons between short and long term performance. The different calculations are shown below.

Performance Calculation:

Arithmetic Relative = Fund Performance – Benchmark Performance

Geometric Relative = $[(1 + \text{Fund Return} / 100) / (1 + \text{Benchmark Return} / 100) - 1] * 100$

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