

Market Review

For the second quarter of 2009, the Barclays U.S. Treasury Index returned -3.02%. The Barclays U.S. Credit Index returned 8.81% for the same period, delivering the best quarterly excess return on record, according to Barclays Capital. Over the quarter, the Treasury yield curve steepened, as the 10-year Treasury yield increased by 87 basis points (bps) to 3.53%, while the two-year Treasury yield increased by 31 bps to 1.11%.

The average spread to Treasuries for the Barclays Credit Index decreased 207 bps to a level of 275 basis points at quarter end. For the quarter, the Barclays Credit A Rated Bond Index returned 9.09% compared to 12.83% for the Barclays Credit Baa Rated Bond Index. These returns reflect continued strong market demand for corporates and an increased appetite for risk across the credit spectrum.

Barclays Bond Index Performance

Index	Total Return (%)	
	1Q09	YTD 2009
U.S. Treasury	-3.02%	-4.30%
U.S. Credit	8.81%	6.87%

Source: Barclays Capital

According to Aviva Investors data, new issue volume for traditional private fixed income was approximately \$5 billion for the second quarter of 2009. This is similar to the \$4 billion issuance level in the first quarter. New issuance volume was distributed over a variety of stable sectors, including food and beverage, utilities, energy and government services. Financings originated from the U.S., the UK, Ireland, Australia and Canada. The average quality of issues placed was BBB+.

Spread levels on private bonds narrowed as the credit markets strengthened, but they did not narrow as much as the spreads on public bonds. Spreads continued relatively wide compared to historical levels. Aviva Investors actively bought private fixed income in the second quarter of 2009. We purchased placements in a variety of sectors including food and beverage, utilities, pipelines and healthcare. The average quality of issues purchased was A-.

We expect private debt issuance to accelerate in the second half of 2009, as issuers continue adjusting to the lending environment. Aviva Investors will continue actively pursuing opportunities in the private fixed income market. We expect new issuance from a wider variety of sectors, and we believe it will be balanced between domestic and foreign issuers in the second half. Investors should continue to see attractive terms and strengthening covenants.

Aviva Investors remains committed to our long-term, fundamental approach to private fixed income portfolio management, and we will seek attractive investment opportunities in individual issues that are aligned with our strategy and consistently meet the objectives of our clients.