

Market Review

According to Aviva Investors data, new issue volume for traditional private fixed income in the fourth quarter of 2009 was approximately \$8 billion. This was a sizeable increase from the \$6 billion issuance level in the third quarter.

New issuance volume was primarily distributed over stable sectors including food and beverage, utilities and energy. Issuance from more cyclical sectors such as chemicals, cement and oil and gas has emerged. Financings originated from the U.S., the Netherlands, Ireland, Switzerland, Australia and Canada. The average quality of issues placed during the quarter was BBB.

Spread levels on private bonds narrowed compared to public bonds, as more insurance company investors returned to the private bond market. Many private debt investors decreased investment activity in the first half of 2009 due to internal constraints and capital preservation needs. During the last quarter, demand for private fixed income increased significantly, and it is expected remain strong in 2010, as most traditional investors have returned to the market.

Aviva Investors North America continued to actively pursue attractive opportunities in the private fixed income market in the fourth quarter. We purchased securities in a variety of sectors including utilities, food and beverage, pipelines and defense. Issuers were domiciled in the U.S., the Netherlands, Switzerland, Australia and Canada. The average quality of issues purchased was BBB+.

Private debt issuance is expected to be strong in the first half of 2010, as issuers – both domestic and foreign -- take advantage of low treasury rates, narrowing spreads and higher investor demand. We expect the average rating of new issues to be in the BBB range, as issuers from more cyclical sectors come back to the market. Investors should continue to see attractive terms and strong covenants.

Aviva Investors remains committed to its 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.

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