

Private Fixed Income Commentary

First Quarter 2010



Market Review

According to Aviva Investors data, new issue volume for traditional private fixed income in the first quarter of 2010 was over \$5 billion. This was somewhat lower than anticipated due to the strong issuance that carried into the end of 2009.

New issuance volume in the first quarter was distributed over a wide variety of sectors including utilities, energy and food and beverage. Issuance from financial sectors such as banking, financial services and REITs has emerged. Financings originated from the U.S., Europe, Australia and Canada.

Spread levels on private bonds continued to narrow from very wide levels, as investors' demand for private bonds continued. Many private debt investors decreased investment activity in the first half of 2009 due to internal constraints and capital preservation needs. While the pipeline of transactions remains strong, we also expect demand to remain elevated in 2010.

Aviva Investors North America pursued several attractive investment transactions in the private fixed income market during the quarter. We purchased securities in a variety of sectors, including utilities and energy, and from both U.S. and Canadian issuers.

We expect private debt issuance to be relatively robust 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 seeing attractive terms and solid 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.