

Market Review

According to Aviva Investors data, new issue volume for traditional private fixed income in the second quarter of 2010 was more than \$11 billion. This continued the trend of strong issuance that started in late 2009. For the first half of 2010, new issue volume has surpassed \$18 billion, which indicates a very strong new issuance market.

New issuance volume in the second quarter was distributed over a wide variety of sectors. Issuers from traditional sectors such as utilities, energy and food and beverage continued to be active. New transactions also originated from the government-backed sector and from the financial, consumer goods, services and manufacturing sectors. Private placement investors appear open to reviewing transactions in most sectors of the market. Financings originated from the U.S., UK, Netherlands, Australia and Canada. The credit quality of new transactions ranged from BBB- to AAA.

Private fixed income continues to see relatively strong bids for most BBB and higher rated issuers. Spreads for weaker and more cyclical BBB issuers have remained wider, as investors demand to be paid for reentering more cyclical industries and lower-rated credits.

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, food and beverage, consumer goods and energy. The average credit quality of second-quarter investments was A-.

Market Outlook

We expect private debt issuance to remain robust in the second half of 2010, as issuers – both domestic and foreign – continue to take advantage of low treasury rates and consistent investor demand. We expect the average rating of new issues to remain in the BBB range, as issuers from more cyclical sectors take advantage of increased investor demand.

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.