

Private Fixed Income Commentary

Fourth Quarter 2010



Market Review

According to Aviva Investors data, new issue volume for traditional private fixed income in the fourth quarter of 2010 was approximately \$9 billion. Full-year 2010 issuance volume exceeded \$40 billion, a significant increase over 2009 and a multi-year high for private debt issuance. New issuance volume is expected to remain strong through the first half of 2011, as well.

New deal volume was distributed over a wide variety of sectors. Issuers from industries such as utilities, energy, industrial and food and beverage continued to be active. New transactions also originated from the financial, consumer, business services, building products and gaming sectors. Some of the countries originating financing were the U.S., Australia/New Zealand, Canada, the UK, Portugal, France and Ireland. The credit quality of new transactions ranged from BBB- to AAA.

Spread levels on private bonds narrowed during the quarter, with some lagging relative to publics toward yearend. Investor demand remained relatively strong. The differential between BBB+ and BBB- credit spreads remains relatively wide by historical measures.

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, defense, transportation and energy. Issuers were domiciled in the U.S., the UK, Australia and Canada. The average quality of issues purchased was BBB+.

Private debt issuance is expected to be strong in the first half of 2011. Issuers from both the U.S. and foreign countries will continue to take advantage of narrowing spreads, strong investor demand and still relatively low Treasury rates. We expect that the average rating of new issues will continue to be in the BBB range during the first part of the year, although higher quality credits will be active issuers, as well. 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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