

# Private Fixed Income Commentary

First Quarter 2011



## Market Review

According to Aviva Investors data, new issue volume for traditional private fixed income in the first quarter of 2011 was more than \$10 billion, exceeding the amount of fourth-quarter issuance. This follows a multi-year high for private debt issuance in 2010. We expect the pace of new issuance to remain strong through at least the first half of 2011.

New deal volume was represented by multiple sectors in both cyclical and noncyclical industries. Issuers from industries such as business services, healthcare, utilities, energy and financial services were among those in the market. Non-domestic (U.S.) issuers were very active during the quarter, representing more than half of overall issuance. Financing originations included the U.S., the UK, Australia, Sweden, France and other European countries. The credit quality of new transactions ranged from BBB- to AAA.

Spread levels on private bonds continued to tighten during the quarter, along with the general credit market, which continues to strengthen. Although the supply of new deals has been robust, investor demand remains quite strong and has exceeded supply, which was evident in the tightening of spreads, particularly for lower-quality BBB credits.

Aviva Investors North America actively pursued selected opportunities in the private fixed income market during the first quarter. We purchased securities in a variety of sectors including utility, energy, transportation and financial services. Issuers were domiciled in the U.S., Australia, the UK and other European countries. The average quality of issues purchased was BBB+.

Private debt issuance is expected to remain strong in the second quarter 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 the average rating of new issues to remain 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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