Private Fixed Income Commentary

Second Quarter 2011

AVIVA INVESTORS

Market Review

New issue volume for traditional private fixed income is on pace for a multi-year record. According to Aviva Investors data, new issuance exceeded $10 billion in the second quarter. This continues the strong new issue market that occurred during the first quarter. While we expect the pace to slow down modestly, new issuance should remain relatively strong through the second half of 2011.

New deal volume continues to be represented by multiple sectors and non-domestic companies, including some industries or domiciles that may have been avoided or unpopular in a different credit cycle. The market saw issuance from a variety of industries, including energy, business services, consumer services and products, utilities, real estate and building products, as well as some infrastructure-related transactions. Non-domestic (U.S.) issuers were again quite active during the quarter, representing more than half of overall issuance. Issuers outside the U.S. included the UK, Australia, Ireland, Sweden, Italy and other European countries. The credit quality of new transactions was predominately BBB.

At the beginning of the second quarter, spread levels on private bonds continued to tighten, along with the general credit market. During May and June, spread levels began to widen, although they lagged the public market somewhat. Markets in general experienced rising volatility, spread widening and relative underperformance of risky asset classes during the second quarter. The economy slowed, European sovereign debt restructuring fears resurfaced, the U.S. debt ceiling and fiscal policy issues received heightened attention, and the Federal Reserve completed its second round of quantitative easing. The private market appeared to be relatively more stable, as investor demand remained quite strong and continued to exceed supply across the credit quality spectrum.

Aviva Investors North America actively pursued selected opportunities in the private fixed income market during the second quarter. We purchased securities in a variety of sectors, including transportation, financial services and infrastructure. Issuers were predominately domiciled in the U.S., Australia and the UK. The average quality of issues purchased was BBB+. Approximately 40% were senior secured transactions.

We expect private debt issuance to remain strong in the third quarter of 2011. Issuers from both the U.S. and foreign countries will continue to come to the market based on strong investor demand and relatively low Treasury rates. We expect the average rating of new issues to remain in the BBB range during the second half of the year, although higher quality credits will be active issuers, as well. Investors should continue seeing 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.