

Private Fixed Income Commentary

Third Quarter 2011



Market Review

According to Aviva Investors data, new issue volume for traditional private fixed income in the third quarter of 2011 was approximately \$10 billion, continuing the robust new issue market for the year. We believe new issuance will remain strong for the rest of the year. New issue volume for traditional private fixed income is on pace to set a multi-year record.

New deal volume was represented by multiple sectors in both cyclical and noncyclical industries. Issuers from industries such as energy and energy services, utilities, pharmaceuticals, business services, healthcare, mining, timber, and food and beverage were among those in the market. Non-domestic (U.S.) issuers continued to be very active during the quarter, representing more than 40% of overall issuance. Issuing countries outside the U.S. included the Netherlands, the UK, Australia, Canada and France. The credit quality of new transactions ranged from BBB- to AAA, with most of the issuance represented by BBB+ credits.

During the third quarter, spread levels on private bonds widened, following credit spreads in the public market. Markets in general experienced significant volatility, spread widening and concern for risky asset classes. The quarter saw record low Treasury yields as the global economy continued to slow, fears of the European sovereign debt crisis intensified, and fiscal policy issues remained unresolved. In spite of the weak economic and market conditions, the private market appeared to be relatively more stable; investor demand remained strong, and the supply of new deals was robust.

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

We believe private debt issuance will remain strong through the end of the year, as issuers from both the U.S. and foreign countries continue to take advantage of strong investor demand and low Treasury rates. We expect the average rating of new issues to continue in the BBB range, 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.

Important information

Past performance is not indicative of future results. This commentary contains the current opinions of Aviva Investors and is not intended to be, and should not be interpreted as, a recommendation of any particular security, strategy or investment product. Such opinions are subject to change without notice. This commentary is distributed for informational purposes only and is not a recommendation or investment advice. The information herein is based on sources which Aviva Investors believes to be reliable, but it is not guaranteed to be accurate or complete.

Forward-looking statements, opinions and other information contained in this article are subject to change continually and without notice and may no longer be true after the date of publication. Any such statements speak only to the date they are made and Aviva Investors North America assumes no duty and does not undertake to update forward-looking statements. Such statements are subject to numerous assumptions, risks and uncertainties, which may change over time. Actual results may differ substantially from those anticipated in forward-looking statements. Past performance is not indicative of future results. There is potential for profit or loss with any investment.

No part of this commentary may be reproduced in any form, or referred to in any other publication, without the express written permission of Aviva Investors North America, Inc.