

PRIVATE FIXED INCOME COMMENTARY

Fourth Quarter 2011



Market Review

According to Aviva Investors data, new issue volume for traditional private fixed income in the fourth quarter of 2011 exceeded \$10 billion. Full-year 2011 issuance volume exceeded \$48 billion, surpassing the previous record set in 2003. We believe the strong level of new issuance will continue into the first quarter of 2012, as well.

The record year of new deal volume was the result of market growth, extremely low interest rates and an increase in non-domestic issuers. Companies from a broad range of industries and sectors accessed the private market. Issuers from industries such as utilities, energy, business services and diversified industrials were particularly active. New transactions also originated from such sectors as financial, consumer, healthcare, infrastructure, transportation and investment management. Financing originations by companies outside the U.S. were very strong, representing approximately 60% of overall issuance. Key countries represented by the issuers included the U.S., the UK, Australia, New Zealand, Canada and several European countries. The credit quality of new transactions covered the broad range of BBB- to AAA.

During the fourth quarter of 2011, public bond spreads were quite volatile. They tightened in October, widened in November and finished the year at slightly tighter levels than at the end of the third quarter. Overall, private market spreads ended the year relatively flat for the quarter. Some BBB transactions came to market at relatively wide BBB levels due to sector or unique aspects. Treasury yields continued at near record lows due to continued concerns about the global economy, the European sovereign debt crisis and U.S. fiscal policy issues. In spite of the global economic concerns and the volatile public market, the private market remained relatively stable, as investor demand remained strong and the supply of new deals continued to be robust.

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, retail, financial, transportation and energy. Issuers were domiciled in the U.S., the UK, Canada and Australia. The average quality of issues purchased was A-. Approximately 30% of purchases in the fourth quarter were secured transactions.

We believe private debt issuance will be strong in the first quarter of 2012. Issuers from both the U.S. and foreign countries will continue to take advantage of stable 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, although higher quality credits will be active issuers, as well. Investors should continue seeing attractive terms and solid 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. There is potential for profit or loss with any investment.

Performance is shown gross of fees and does not include the deduction of management fees and other expenses that may be incurred in managing an investment account. A portfolio's return will be reduced by advisory and other fees. The net compounded effect of the deduction of investment management fees over time will be affected by the amount of the fees, the time period and your account's investment performance. For example, an account with a beginning value of \$100 million, gaining an annual return of 10% per year would grow to \$259 million after 10 years, assuming no fees have been paid. If the same account paid a 1% annualized advisory fee, it would grow to only \$235 million over 10 years. The annualized returns over the 10 year time period would be 10% (gross of fees) and 8.91% (net of advisory fees). A description of Aviva Investors' fees may be found in Part II of the ADV.

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