

Market Review

The Barclays Capital U.S. Credit Index followed last quarter's record increased with its second best quarter ever at 7.47%, outpacing U.S. Treasuries. U.S. Treasuries returned 2.1% for the same period, as interest rates decreased and the Treasury curve steepened slightly. The 10-year Treasury note decreased by 23 basis points (bps) to end the quarter at 3.30%, while the two-year Treasury note decreased by 16 bps to end the quarter at 0.95%. The average spread to Treasuries for the Barclays Credit Index decreased 81 bps to a level of 205 bps at quarter end.

Barclays Bond Index Performance

Index	Total Return (%)	
	3Q09	YTD 2009
U.S. Treasury	2.1%	-2.29%
U.S. Credit	7.74%	14.86%

Source: Barclays Capital

According to Aviva Investors data, third-quarter 2009 new issue volume for traditional private fixed income was approximately \$5 billion. This is similar to the issuance level in the second quarter of 2009. New issuance volume was distributed over stable sectors, including food and beverage, utilities and energy. Financings originated from the U.S., the Netherlands, Germany, Australia and Canada. The average quality of issues placed was BBB+. Spread levels on private bonds narrowed compared to public bonds as more investors returned to the private bond market.

The yield premium for private fixed income is close to average historical levels. Aviva Investors was an active buyer of private fixed income in the third quarter of 2009. We purchased placements in a variety of sectors including food and beverage, utilities and energy. The average quality of issues purchased continued to be A-.

Outlook

We expect private debt issuance to be strong in the fourth quarter of 2009 as issuers take advantage of lower Treasury rates, lower spreads and higher investor demand. We expect new issuance to be more in the BBB ratings range, in a wider variety of sectors and from a variety of countries in the fourth quarter. Investors should continue to see attractive terms and strong covenants.

We remain committed to our 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.