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A Viewpoint on Liability-Driven Investing (LDI)

AVIVA INVESTORS

Highlights

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www.avivainvestors.com

Introduction

Aviva Investors has been managing investments under an LDI framework for more than 15 years. We are a globally integrated asset management business with more than $400 billion (USD as of 12/31/2009) in assets under management worldwide. Affiliation with our insurance company parent, Aviva plc, provides us the insight and expertise to offer highly customized solutions. We work with each institution to develop a plan and investment policy that complements its current investment portfolio.

Synopsis

The challenges were magnified by investors who inappropriately matched the liability interest rate risk profile with their actual liabilities and also when they overlooked the extent of the negative correlation between equity performance their liabilities.

The recent market cycle has provided a challenging environment for institutions to manage volatility between asset and liability values. The challenges were magnified by investors who inappropriately matched the liability interest rate risk profile with their actual liabilities and also when they overlooked the extent of the negative correlation between equity performance and their liabilities. Investors can address these challenges going forward by managing the risk of investments in an asset-liability or liability driven investing framework. Within this framework, Aviva Investors provides an LDI solution that applies its long-duration fixed income management expertise to a custom benchmark designed to hedge the fundamental risks of each client's unique liabilities.

Underlying all LDI approaches is the assumption that investment strategy should be developed in relation to the liabilities of the client. Aviva Investors distinguishes its approach by benchmarking portfolio performance against liabilities, rather than an arbitrary benchmark driven by asset allocation analysis.

This leads to a highly customizable solution. LDI is not a product, but rather an approach that covers a range of investment techniques for managing a pension fund's assets specifically in relation to its liabilities. Typically, LDI will involve analyzing the liabilities and creating a portfolio of cash bonds and synthetic instruments, if applicable, in response to the requirement for a targeted, manageable level of risk.

A successful LDI manager needs three things: Strong credit research that focuses on avoiding underperformance, access and experience investing in a diversified pool of long maturity bonds and a history of effectively managing market and operational risk.

Competitive Advantages

Many differentiating qualities make Aviva Investors North America an ideal investment manager for LDI.

1. The first is experience. We have been managing assets against various liability types for more than 15 years.

2. In addition, we have a goal of continuously providing downside credit protection on our bond and derivative investments by using stringent counterparty analysis and robust global research.

3. Third, the Aviva Investors team uses multiple information sources (people, processes and systems) to generate a risk management feedback loop for each client's risk tolerance.

4. We also have extensive experience in customized benchmarks and customized reporting for our clients.

5. Knowhow distinguishes Aviva Investors, too. We have developed a fundamental investment framework, focused on risk-adjusted returns. And we have established track records across multiple fixed income asset classes.

6. The final differentiator is our scale: Our international reach means we have dedicated LDI teams in other locations who have expertise across a range of regulatory jurisdictions and varied liability types and they can be called upon to assist in our ability to develop locally efficient solutions for our clients. We also leverage our global research and asset management capabilities as part of the integrated platform used to achieve investment objectives.

Our approach is solidified by the people who lead Aviva's LDI teams. Clients who customize an LDI strategy with Aviva Investors can leverage the stability and expertise of four teams:

Portfolio Management Team: provides extensive experience managing cash bond portfolios. Our investment professionals have an average of more than ten years of industry experience. Ross Junge, leads the team. Ross has more than seventeen years of investment management experience and has a deep understanding of fixed income and customized benchmarks.

David Ross, Head of Investment Solutions, leads the next three teams. David has more than 26 years of finance industry experience and has profound experience in asset liability management.

Derivatives Solutions Team: provides full service investment solutions to insurance companies, pension clients and mutual funds. They use innovative proprietary technology platforms to dynamically manage through various market conditions. The team tailors functionality to each client's unique LDI strategy.

LDI Team: consists of actuaries and investment professionals who have experience working with a wide variety of contingent liabilities. Working directly with the client, we gain a thorough understanding of the liability profile, the team then collaborates with both portfolio management and derivative solutions to develop strategies that optimize risk and return in alignment with the client's risk tolerance and objectives.

Risk Management Team: acts as a second line of defense by reviewing risk measures on a daily basis. They use various portfolio management tools to compile monthly compliance reports, generate internal model valuations, assess operational controls and perform scenario analysis.

Client-driven factors

We recognize that development of an LDI strategy is a highly client-driven process. Our approach starts with a thorough understanding of the client's objectives and unique liability profile. We seek to optimize the risk and return by incorporating numerous factors such as strategic asset allocation, cash flow, and duration-matching and duration-extension solutions. Aviva Investors has wide-ranging experience in custom benchmarking and custom reporting.

Conclusion

Aviva Investors has been managing investments under an LDI framework since the inception of the firm. We have established the insight and expertise to provide clients with highly customized solutions. We work with each institution to develop a plan and investment policy that complements its current investment portfolio.

Important information

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