Aviva Investors Pensions –
High Alpha Gilt Fund

Q4 2011

Fund objective

To outperform the FTSE-A All Stocks Gilts Index by 1.5% p.a. over rolling three year periods, before charges.

Fund manager

Shahid Ikram

Benchmark

FTSE-A All Stocks Gilt index

Fund size

£188.07m

Launch date

01 October 2001

Gross redemption yield

1.80%

Duration (modified,semi annual)

9.29

Convexity (semi annual)

1.77

Further information

www.avivainvestors.com

Fund summary

The High Alpha Gilt Fund* is an aggressive UK Bond portfolio which targets added value from diversification into overseas, emerging markets and corporate bonds. The fund invests in a concentrated range of stocks, taking larger positions than in conventional UK bond funds. The fund manager also makes use of tactical switching between asset classes (gilts, credit etc.) to enhance fund performance. Returns are likely to be more volatile than those of the AIPL UK Gilt Fund.

Fund comment

Volatility remained elevated over the final quarter of 2011. The European situation continued to dominate the news headlines as well as the focus of investors globally. The flight-to-quality bid within developed bonds persisted, consequently both Gilts and US Treasuries benefited. Both France and Germany, however, began to feel the effects of the on-going European fears. Spreads began to widen out aggressively (especially in the case of France) as funding fears over these two AAA nations began to rise. Political and economic rhetoric followed along the same lines as Q3 2011, however, talks over Treaty changes and fiscal union going forward certainly began to gain more traction.

Early in the quarter, the Bank of England voted unanimously in favour of a GBP 75bn extension to their asset purchase programme and left themselves open to flexibility by declaring that the final scale of the programme will be kept under review. The resultant effect on the gilt market saw both yields move lower and the yield curve begin to move flatter. As mentioned in prior commentaries, we have been looking for the curve to flatten for some time and as further monetary stimulus measures are applied, strategic curve opportunities will be presented. Consequently, we positioned ourselves with a flattening bias which proved to work well over the period. This was reduced in early December, however, we look to potentially re-enter this trade at more attractive levels.

Contrary to the US, economic data within the UK over the quarter was not particularly punchy and Fitch warned there is now no room for fiscal slippage. The Chancellor will be wary of the situation in Europe and will be looking at keeping the UK's AAA rating intact, although nervous times no doubt lie ahead.

Going forward, our process is now sitting with more of a neutral bias. We continue to believe we are in a low growth environment and consequently would look to apply duration positions on any significant back up in yields; however, we are mindful of event risks in the short-term. Elsewhere, we continue to look for tactical trading opportunities through both stock selection and around issuance.

Source: Aviva Investor/ Bloomberg as at 31 December 2011
Basis: Mid to mid, Income reinvested, before charge, in Sterling

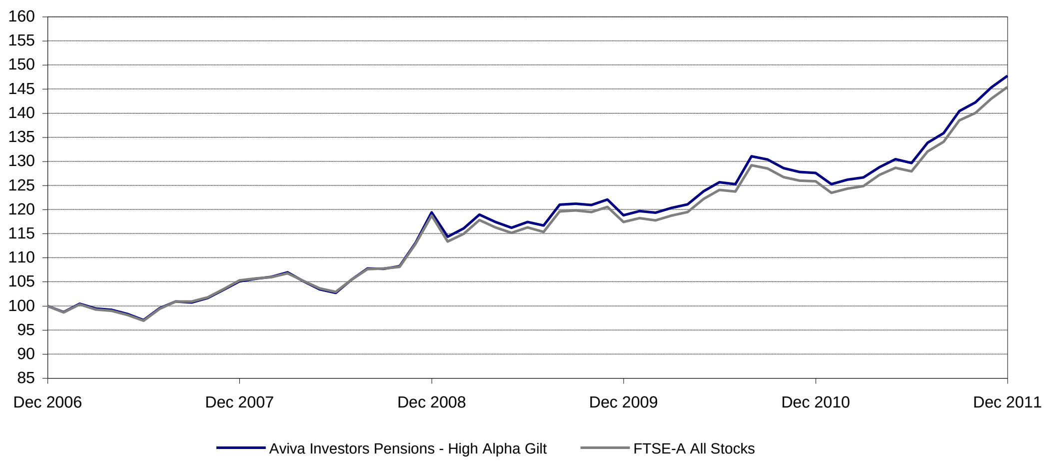
Fund performance (%)

	3 Months	Year To Date	1 Year	3 yrs	Annualised 5 yrs	10 yrs
Fund	5.2	15.8	15.8	7.4	8.1	7.2
Benchmark	5.0	15.6	15.6	7.0	7.8	6.5
Relative †	0.2	0.2	0.2	0.4	0.3	0.7

Past performance is not a guide to the future

Source: Aviva Investor/ Lipper Hindsight as at 31 December 2011
Basis: Mid to mid, Income reinvested, before charge, in Sterling

Fund performance vs Benchmark (%) 5 years



Source: Aviva Investor/ Lipper Hindsight as at 31 December 2011
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Additional information

* In April 2006, the UK Core plus Bond Fund was renamed the High Alpha Gilt Fund and the outperformance target changed from 1.35% to 1.25% per annum. Full details are available on request.

Credit rating

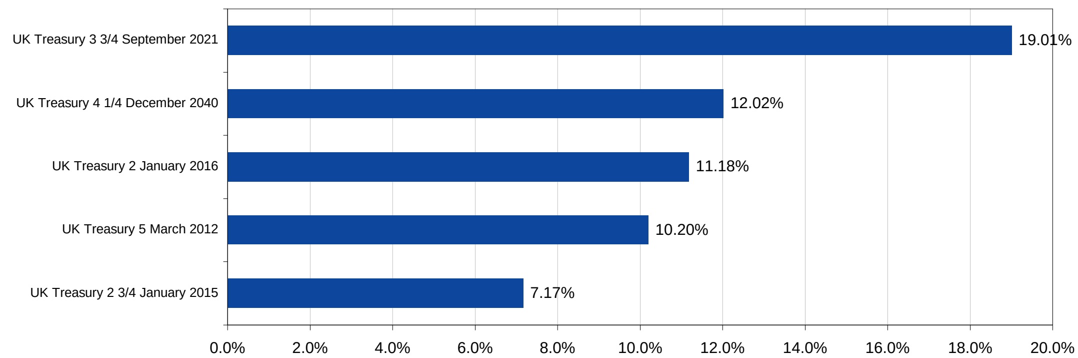
Rating	Fund	Benchmark	Relative
AAA	99.39	100.00	-0.61
AA	0.00	0.00	0.00
A	0.00	0.00	0.00
BAA	0.00	0.00	0.00
BA	0.00	0.00	0.00
B	0.00	0.00	0.00
CAA	0.00	0.00	0.00
Other	0.61	0.00	0.61
Total	**100.00**	**100.00**	**0.00**

Source: Aviva Investors/BDRISIS/ThinkFolio as at 31 December 2011
Basis: Includes cash, unassigned & derivatives

Maturity rating

Maturity	Fund	Benchmark	Relative
0-3m	0.00	0.00	0.00
3m - 1Y	10.72	2.57	8.15
1-3 yrs	3.84	14.19	-10.35
3-5 yrs	18.40	14.30	4.10
5-7 yrs	6.82	6.73	0.09
7-10 yrs	20.34	18.34	2.00
10-15 yrs	3.27	6.35	-3.08
15-20 Yrs	9.07	8.84	0.23
20+ Yrs	27.54	28.68	-1.14
Total	**100.00**	**100.00**	**0.00**

Largest holdings



Source: Aviva Investors/BDRISIS/ThinkFolio as at 31 December 2011
Basis: Includes cash, unassigned & derivatives

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† Performance has been calculated on a geometric relative basis

There are two methods of comparing a fund against a benchmark, the geometric relative or arithmetic, 'simple difference'. Aviva Investors uses the geometric relative. This is a ratio of out/under performance rather than simply the Fund Return less Benchmark Return. We believe this is a more realistic measure of out/underperformance particularly for comparisons between short and long term performance. The different calculations are shown below.
Performance Calculation:
Arithmetic Relative = Fund Performance – Benchmark Performance
Geometric Relative = [(1 + Fund Return / 100) / (1 + Benchmark Return / 100) – 1] * 100

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