

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

£181.35 m

No of holdings

17

Launch date

01/10/2001

Gross redemption yield

2.77%

Duration (modified,semi annual)

8.61

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

Risk aversion dominated the quarter's activities. Euro area debt problems showed no signs of abating and even a near \$1 trillion package from the EU and IMF was not enough to quell concerns over sovereign risks and potential contagion effects. Fears over a double dip recession resurfaced and riskier asset classes were significantly hit.

The UK witnessed an historical shift in its political landscape and the resulting coalition government was well received by the markets. This benefited Gilts which saw demand both domestically and on an international basis. The new Chancellor, George Osborne, delivered an aggressive emergency budget which proved to satisfy the ratings agencies. Consequently, sterling recovered from its previous underperformance as investors gained confidence in the UK's potential to deal with its fiscal burden. Yields fell significantly over the period and the portfolio traded to tactically take advantage of this environment.

The portfolio was positioned with a neutral duration bias, however a quasi-long duration bias was held via the funds curve positioning where a steepening bias was employed. This proved to work as markets began to price interest rates being at an historical low for an extended period of time. However, as this trade became stretched and expensive, profit was taken and a small flattening bias ensued which detracted from performance towards the end of the quarter.

Going forward, as our process continues with its modest bond bullish stance, we look to play the market from the long side and would see any significant back-up in yields as an attractive buying signal. We look to tactically trade around issuance and will look to take advantage of relative value curve opportunities.

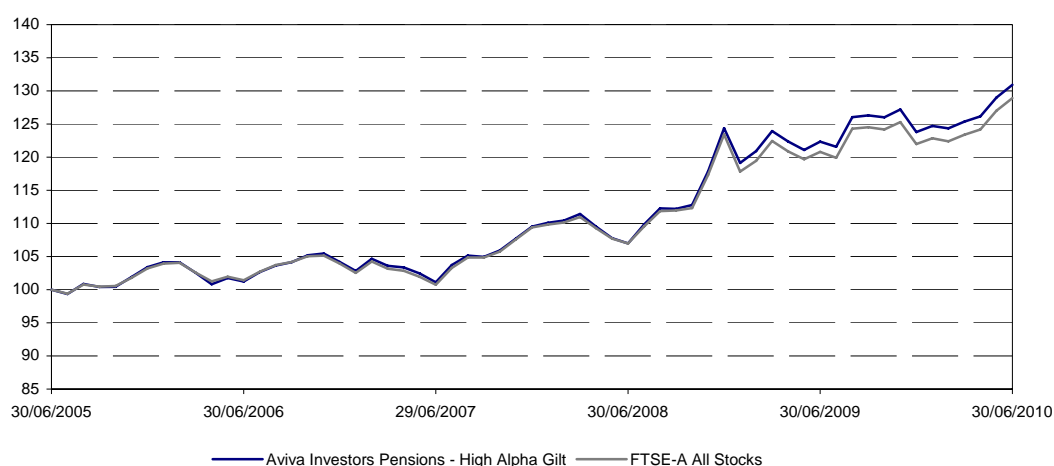
Fund performance (%)

	3 Months	Year To Date	1 Year	Annualised to 30/06/10		
				3 yrs	5 yrs	10 yrs
Fund	4.4	5.7	7.0	9.0	5.5	-
Benchmark	4.5	5.7	6.7	8.6	5.2	-
Relative †	-0.1	0.0	0.3	0.4	0.3	-

Past performance is not a guide to the future.

Source: Aviva Investors, mid to mid, income reinvested, before charges.

Fund performance vs Benchmark (%) 5 years (or since launch)



Source : Aviva Investors and Lipper Hindsight – mid to mid, income reinvested, before charges

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.

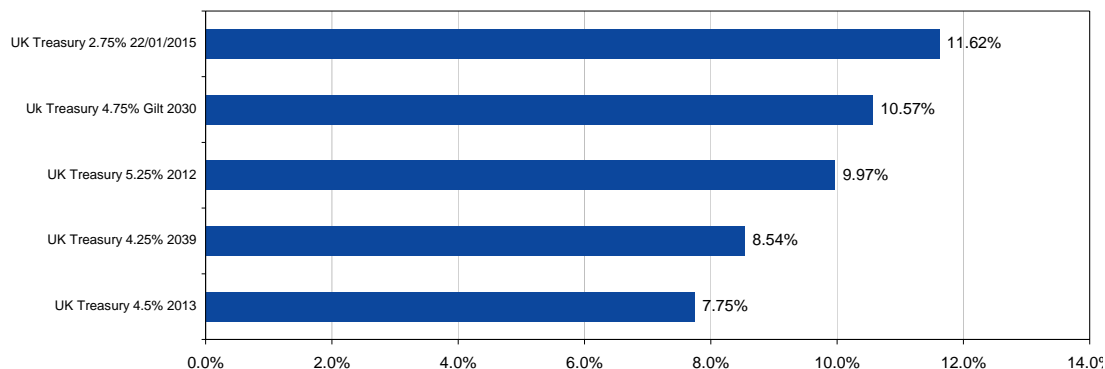
Credit rating

Rating	%
AAA	100.00
AA	-
A	-
BBB	-
BB	-
B	-
Other/not rated (including cash)	-
Total	100.00

Maturity rating

Maturity	%
<1 yr	3.54
1-3 yrs	22.69
3-5 yrs	11.62
5-7 yrs	6.82
7-10 yrs	16.53
10 + yrs	38.80
Total	100.00

Largest holdings



† 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 = $[(1 + \text{Fund Return} / 100) / (1 + \text{Benchmark Return} / 100) - 1] * 100$

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