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Aviva Irl UK Property Fund

Monthly report

31 January 2011

Please note that with the exception of the performance section, the information contained in this report is based on the underlying Aviva Investors Property Trust in which the Aviva Irl UK Property Fund entirely invests.

Performance to 31 January 2011

	1 month %	YTD %	1 year %	3 years % p.a.	5 years % p.a.
Aviva Irl UK Property Fund (Pension)	0.0	0.0	8.4	-6.9	-5.5
Aviva Irl UK Property Fund (Gross)	0.0	0.0	8.2	-7.2	-5.7
Aviva Irl UK Property Fund (Geared)	0.0	0.0	12.8	-16.9	-15.4

Source: Lipper Hindsight, bid to bid, net income reinvested. Past performance is not a guide to the future.

Summary

- As discussed in last month's market update, 2010 finished with somewhat of a flurry of activity in the UK commercial property market. Pricing for prime or near prime assets continued to improve, and a number of larger deals were completed with the year end as the main driver. As such, 2011 started a little quieter, as those transactions which weren't completed in December were progressed, but with little new activity. This is not unusual, and the start of the year is often quiet as investors take stock of asset allocations and draft their strategies for the year. The initial sense in the market is that the early part of 2011 could well see a continuation of the lack of investment supply, with a large and broad base of buyers seeking (in general) better quality/long-let stock. The considerable extent of overseas buyers, particularly in the core Central London markets, seems likely to continue throughout 2011, as those investors see the UK as a relatively safe haven (and with the advantage of a relatively cheap currency).
- The outlook for 2011 remains uncertain, but there are some reasons to be optimistic about the near-term prospects for UK commercial property. Consensus forecasts are generally for returns to be income-only with the potential for some capital value decline in certain sub-markets. However, there is a potential short-term upside to this central outlook which is that the supply of capital from both domestic and overseas sources, the relatively low value of Sterling, and inflation concerns continue to drive investors to real assets, and particularly property with long and secure income streams. Such pressure of demand could perhaps mean that the market overall (and Central London in particular) could do significantly better over 2011 than this consensus forecast. The major uncertainty remains the main lending banks and the continued lack of availability of new debt. It appears that more investment sales in 2010 were lender influenced than was apparent on the surface, with it being estimated by one source that one of the major three lenders was directly or indirectly responsible for around 18% of all investment sales last year. Initially this figure might appear quite high (and it hasn't been independently substantiated), but these sales were (in the main) very measured and the banks in question chose not to flood the market openly. Whilst a broader release of stock by the banks remains a concern, it is unlikely to happen in any significant way until much later in the year, and in the meantime the case for many investors to sell is still a difficult one. Overall, therefore, the early part of 2011 is likely to be remembered for a continuation in the position of excess investment demand over supply.

  As for occupier markets, many are still coming to grips with their 2010 performances. Some retailers saw very good volumes/values over December, although others felt that the difficult weather conditions adversely affected their trade to a significant degree. Overall, however, there are enough new entrants in the retail market, and enough existing operators looking to expand/upsize to give a reasonable level of comfort to those investors holding assets in the larger regional retail centres. However, the polarization of consumer expenditure towards these centres is likely to continue, and one should therefore be fairly cautious about tenant activity in the more peripheral markets. It should also be noted that the real impacts of the Government's austerity measures have not yet been seen.
- Finally, as far as the Fund is concerned, we are likely to be active traders over the first half of 2011, by recycling capital out of existing assets where we've added value, and in to those where we can use our resource to actively manage and create income/value growth.

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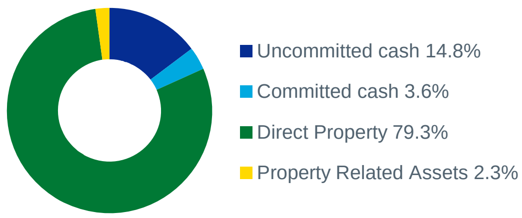
AVIVA INVESTORS

Fund profile

a) Overall profile

- The total cash weighting now stands at 18.4%. The direct property weighting is 79.3% and the indirect (property-related assets) weighting 2.3%.
- Uncommitted cash means money available to meet fund cashflow requirements. It excludes cash or cash-equivalent instruments which could not be accessed within the settlement period required to meet unit redemptions.

Fund position as at 31 January 2011



b) Direct property strategy

The profile of the direct property portfolio as at 31 January 2011 was as follows:

	Offices %	Shops %	Shopping Centre %	Retail Warehouse %	Industrial %	Other %	Total %
South East	5.3	1.3	0.0	4.2	4.8	0.7	16.3
Eastern & South West	1.9	1.6	3.5	0.6	1.8	0.0	9.4
Midlands & Wales	4.0	5.8	2.8	1.6	1.3	3.9	19.4
North & Scotland	5.9	5.7	7.7	4.7	2.5	6.0	32.5
London	7.7	2.8	0.0	11.4	0.5	0.0	22.4
Total	**24.8**	**17.2**	**14.0**	**22.5**	**10.9**	**10.6**	**100.0**

Source: Aviva Investors

Fund performance

a) Direct property portfolio

- The fund holds 73 properties as at 31 January 2011 with a net initial yield of 6.2%. During January the fund sold an industrial unit in Horsham. No properties were bought during the month.
- The direct property values during the month showed a rise of 0.1%. The best performance over the month came from the Retail Warehouse sector (+3.1%) and the worst performing sector was the Industrial sector (-1.7%).

Cash performance

- Returns from the cash component of the fund to 31 January 2011 are shown on the table below:

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Cash return	0.06	0.16	0.63	0.58	2.46	3.33

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Monthly report

31 January 2011

Top ten holdings as at 31 January 2011 (listed by order of size of asset)

- Hayes - Lombardy Retail Park (retail warehouse)
- Preston - St Georges Shopping Centre (shopping centre)
- Edinburgh - Omni, Greenside Place (leisure)
- London SW1 - Princes House, Jermyn Street, Piccadilly (office)
- Birmingham - Colmore Gate, 2 Colmore Row (office)
- Kettering - Tesco (retail)
- Birmingham - Broadway Plaza (leisure)
- Exeter - Guildhall Shopping Centre (shopping centre)
- Glasgow - 123 St Vincent Street (office)
- London W1 - 20 Soho Square (office)

Aviva Irl UK Property Fund performance prospects

Aviva Investors forecasts the fund’s property-related asset portfolio to produce returns at least in line with direct property over the next three years, but with more volatility.

The principal upside risks are:

- stronger economic recovery than forecast leading to higher income growth
- yields decreasing more than forecast, increasing positive impact on capital returns
- improvement in credit markets.

The principal downside risks are:

- significant weakening in occupier demand across all sectors
- interest rate increases
- worsening of credit markets.