Aviva Investors - Blue Chip Corporate Bond Fund

Q4/09 Update

Alan Galvin

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Presenter: Alan Galvin is Manager of the Blue Chip Corporate Bond Fund and he joins me now. Alan, what have been the main themes driving bond markets in the third quarter?

Alan Galvin: The strong rally in credit markets that started at the beginning of March of this year has continued right through the third quarter of 2009. Global central banks have coordinated in easing monetary policy by reducing cash rates close to zero and have entered into quantitative easing, the buying back of long dated bonds, in order to bring interest rates to historic lows. Also you've seen governments setting up fiscal stimulus programmes like the Cash For Clunkers in the US, and these have been successful in returning economic growth back to positive levels. This has succeeded in returning investor confidence and the risk appetite of investors. As a result, credit spreads have returned to levels not seen since pre-Lehman bankruptcy.

Presenter: How has this been reflected in fund performance?

Alan Galvin: The Corporate Bond Fund has returned approximately 5% in the third quarter of 2009 and is up over 10% since its launch in April of this year.

Presenter: And can you tell me about the current activity in the fund?

Alan Galvin: The investment approach of the fund is based on our highly successful high yield equity investment process that concentrates on high quality blue chip companies, ones that have strong balance sheets, they've got good cashflows and have a business model that's sustainable through economic cycles. For example, in the last quarter we've added Microsoft to the bond holdings. Also we believe that there is good value in Triple B bonds. These are bonds that investors have shied away from recently because of the fear, that of downgrading of the bonds into junk status. A couple of examples we've added in the last quarter has been the miner Rio Tinto and Kraft Foods.

Presenter: What's your outlook for the next quarter?

Alan Galvin: The house view is for immediate economic recovery where the end consumer demand is weak but inflation risks will be low. This is a good environment for bonds. We believe the main drivers for the rest of the year will be the predictable income from coupons of the bonds rather than the capital gains that we've seen in the second and third quarter, due to the narrowing of corporate bonds spreads. These spreads have narrowed in significantly back to pre-Lehman levels but we believe still offer good value. The yield on the corporate bond fund is approximately 5% and this compares favourably with cash and government bonds of yielding only 1-3%, and we also believe compares favourably to equities where there are high volatilities currently. So the combination of increased supply yet a very strong demand by the end investor we believe will underpin credit spreads for the rest of the year.

Presenter: Adam Galvin, thank you very much.

Alan Galvin: Thank you.

Warning: Past performance is not a reliable guide to future performance.

The value of your investment may go down as well as up.

The fund may be affected by changes in currency exchange rates.

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