

# High Yield Equity Fund

## Monthly report

July 2010



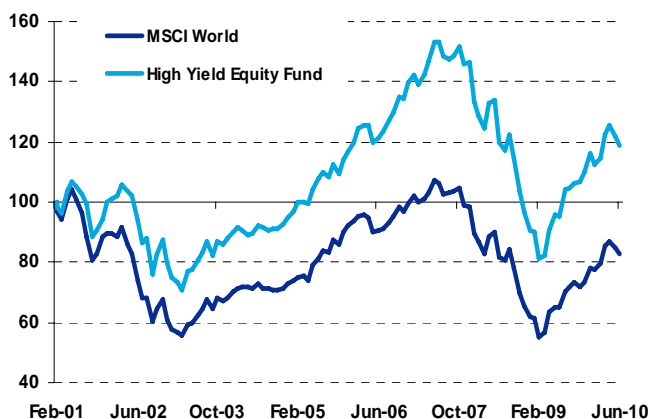
### Market review

- The MSCI World benchmark index fell 3.2% in euro terms during June as investor sentiment remained fragile. Concerns surrounding the European sovereign debt crisis and the solvency of the banking sector showed little signs of abating, despite news that bank stress tests would be conducted and a promise to recapitalise banks that needed it.
- Economic data releases during the month were generally disappointing, suggesting the recovery is losing momentum. Most notably, the latest US labour market and housing surveys came in weaker-than-expected, and the S&P 500 Index underperformed other major international indices on a common currency basis.
- The prevailing mood of risk aversion was evident in a further fall in US Treasury bond yields, with the benchmark 10-year note ending the half-year below 3%.

Source of market data Bloomberg or Factset

### Fund performance

High Yield Equity Fund vs MSCI World



Source: Bloomberg 30 June 2010

The table below shows performance over various periods to 30 June 2010:

Fund / Index	1 Month	1 Year	3 Years p.a.	5 Years p.a.
High Yield Fund SC B	-2.8%	24.5%	-8.1%	2.0%
MSCI World*	-2.6%	26.6%	-8.1%	0.3%
Performance Difference	-0.2%	-1.4%	0%	1.6%

Source: Aviva Investors, Euro total return performance, gross of fees  
\*Source: Bloomberg (All performance is shown in euro terms)

### Portfolio commentary

#### Positives

- **Standard Chartered Bank** is benefiting from improving trading conditions in emerging markets. Revenues have picked up over the first half of the year, particularly within the consumer and wholesale banking units where loan impairment trends have been very encouraging.
- **BASF**, a German Chemicals group, announced the acquisition of Cognis which will give the company a strong market position in the health and nutrition sector. The acquisition will take BASF from number three in personal care ingredients to the top spot and the company expects the deal to enhance earnings from 2012 onwards.

#### Negatives for the Portfolio

- **BP** shares sank to a 14-year low as the cost of clean up operations from the Deepwater Horizon oil spillage off the Gulf of Mexico has now ballooned to £1.75 billion.
- **Microsoft** shares have fallen back sharply since late April, as investors have switched out of technology stocks into more defensive areas.

Source: Aviva Investors 30 June 2010

The table below gives details of how the portfolio has been constructed:

Portfolio	No. of stocks	% of Fund	% Yield	% Market Yield
US	17	47.40	3.40	2.20
UK	9	19.70	3.80	3.80
Europe	10	23.40	5.00	3.50
Asia	6	9.60	3.90	2.60
<b>Total</b>	<b>42</b>	<b>100</b>	<b>4.00</b>	<b>2.70</b>

Source: Aviva Investors 30 June 2010

### Outlook

Recent economic data releases have called into question the resilience of the recovery in the US, while major concerns remain as to the stability of the European banking sector. With European governments introducing austerity measures, there is now a greater risk of a double dip recession in the single currency zone and in the UK. Interest rates are still rising in Asia, while the Chinese government is also focused on slowing down excessive loan growth. These factors suggest it will be difficult for the markets to recover from second quarter weakness and make any strong headway over the summer months.

#### Important Information

This fund is managed by Aviva Investors on behalf of Aviva Life & Pensions Ireland Limited.

**Warning:** The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested. Past performance is not a guide to the future. This fund may be affected by changes in currency exchange rates.

Unless stated otherwise any opinions expressed are those of Aviva Investors Global Services Limited (Aviva Investors). They should not be viewed as indicating any guarantee of return from an investment managed by Aviva Investors nor as advice of any nature.

Aviva Investors Global Services Limited, registered in England No. 1151805. Registered Office: No. 1 Poultry, London EC2R 8EJ. Authorised and regulated in the UK by the Financial Services Authority and a member of the Investment Management Association.

Contact us at Aviva Investors Global Services Limited, No. 1 Poultry, London EC2R 8EJ.

Reference 10/0819/151110