

Aviva Irl High Yield Fund

Monthly report

January 2011

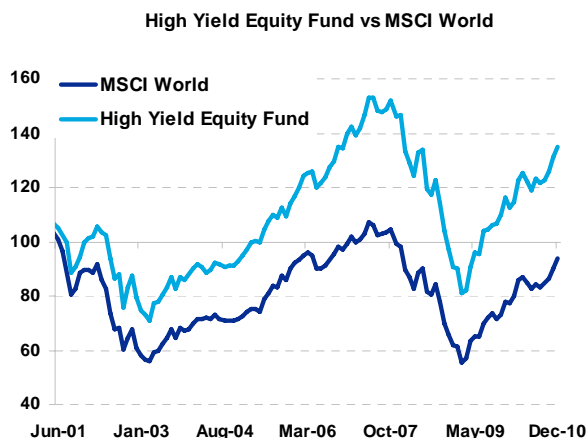


Market review

- The MSCI World index gained 4.2% in Euro terms during December. In another bull month most of the Eurozone equity markets outperformed those of North America and Asia as Eurozone debt fears temporarily receded in the run up to Christmas. Cyclical sectors - materials, energy, financials, and industrials have once again outperformed defensives.
- US economy continued to show signs of reacceleration with further improvements in the closely watched manufacturing, employment and home sales data. Instead, accelerating Chinese inflation was the focus of investor concerns with November headline CPI of 5.1% year on year surprising on the upside. Chinese authorities first responded by raising required reserved ratios by 50bps, then hiking deposit and lending interest rate by 25bps on Dec.26.
- Bond yields continued to rise reflecting better growth prospects, but the benchmark US 10 yr treasury yield stayed below 3.5%, very low by historical standards. The gap between bond and dividend yields remains narrow, meaning that flows from bonds into equity, particularly high yield equity, should continue.

Source of market data Bloomberg or Factset

Fund performance since launch



Source: Bloomberg 31 December 2010

The table below shows performance over various periods to 31 December 2010:

Fund / Index	1 month	1 year	3 years p.a.	5 years p.a.
Aviva Irl High Yield Fund SC B	2.8%	15.8%	-2.8%	2.9%
MSCI World*	4.2%	20.1%	-1.5%	0.4%
Performance Difference	-1.4%	-4.3%	-1.3%	2.5%

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

Portfolio commentary

Positives

- US steel manufacturer **Nucor** was the best performing stock in the portfolio in December. Despite expectation of the weak Q4 due to high scrap price, the company said that Q1 will be better as the utilization is improving and the industry has aggressively raised steel prices.
- Another industrial company – **Illinois Tool Works** – was the 2nd best performing stock during the month when most cyclical industrial names rallied in the US on the improving economic news flow.

Negatives

- **McDonald's** underperformed in December as did most other defensives. Investors were also disappointed with slower growth in November same store sales in the US, as well as in Japan and China.
- Hong Kong based **Bank of East Asia** was another weak performer as HK/China equities underperformed during the month on the concerns around accelerating Chinese inflation and likely policy response.

Source: Factset 31 December 2010

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

Portfolio	No. of stocks	% of fund	% yield	% market yield
US/Canada	20	53	2.9	1.8
UK	6	12	3.9	3.1
Europe	10	24	4.8	3.4
Asia	4	11	3.2	2.5
Total	40	100	3.5	2.4

Source: Aviva Investors 30 November 2010

Outlook

We believe that the global economic recovery will continue in 2011, albeit at slower growth rates than those seen in 2010. The Fed will keep loose monetary policy for longer and the US corporate sector remains in good shape as demonstrated by healthy earnings and record cash levels. In Europe, austerity measures in the current account deficit countries will weigh on growth. However, improved global trade and productivity gains should partly offset fiscal retrenchment. Eurozone debt crisis is likely to be resolved despite the German public opposition, as the cost of failure of the common currency is too high. China's rebalancing the economy towards consumer-led growth, measures to cool down the property market and reign in credit will slow growth, leading to lower commodity prices and weakness in resource economies.

Important Information

The content of this document has been produced by Aviva Investors Global Services Limited, the investment manager appointed by Aviva Life & Pensions Ireland Limited to manage the fund.

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.

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