

Aviva Irl Balanced Managed Fund

Monthly report

January 2011



Fund background

A medium risk mandate, this composite fund comprises equities, bonds, property and cash. The equity portfolios utilise both growth and dividend yielding investment styles. The bond portfolio can invest in both government bonds, on a conventional and index linked basis, as well as corporate bonds. The property portfolio invests in Irish property and/or IPUT shares.

Asset allocation

Our asset allocation process is a vital part of the overall investment management operation. The process includes inputs from both our equity and bond teams and ultimately decisions are made on the basis of these meetings and our economist's macroeconomic views. The Strategy Group meets formally on a monthly basis to decide the appropriate mix of our funds. This meeting receives inputs from our in-house strategists and economist, plus the bond and equity teams.

Quarter 4 2010 asset allocation position:

Fund / Index	Aviva Irl Position	Average Position	Relative
Irish Equities	5.43%	5.31%	0.12%
Euro (ex Irl) Equities	17.34%	15.07%	2.27%
Europe (exUK, Euro) Equities	2.39%	6.24%	-3.85%
UK Equities	11.25%	10.36%	0.89%
US Equities	22.75%	24.27%	-1.52%
Japanese Equities	3.84%	3.40%	0.44%
Pacific Basin Equities	12.65%	10.81%	1.84%
Bonds	14.94%	14.91%	0.03%
Property	5.23%	3.28%	1.95%
Cash	4.19%	6.35%	-2.17%

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 Balanced Managed Fund Life SC C	2.9%	8.4%	-7.7%	-2.8%
Aviva Irl Balanced Managed Fund Pension SC B	3.0%	8.6%	-7.4%	-2.5%
Mercer Survey Average*	3.4%	11.4%	-4.1%	-0.8%

Source: Aviva Investors, Euro total return performance, net of fees

*Source: Mercer Survey 31 December 2010

Portfolio commentary

Equities look reasonably attractive and we expect them to generate a positive return in 2011, helped by the low rates of interest offered by risk-free government bonds and money-market instruments. Equities should also gain support from an ongoing revival in takeover activity. With company balance sheets strong and borrowing costs still low, mergers and acquisitions remain a logical method of boosting earnings, particularly in an environment of relatively weak economic growth. But any further rise is likely to be unspectacular given our belief that the pace of the economic rebound will remain relatively tame by historical standards. Corporate bonds still look attractive given the health of company balance sheets. Although the scope for further capital gains may be limited, the asset class is still attractive on a yield (or sustainable-return) basis, even after adjusting for the costs associated with potential defaults. Cash balances are at record levels as companies refrain from investing or hiring, owing to a lack of confidence the recovery will be sustained.

Fund performance

The fund delivered positive returns this month. Global equities surged, more than recouping losses sustained in November, as a raft of robust economic data releases laid to rest the notion that the US economy was poised to slide back into recession. The rally was further underpinned by loose monetary policy in the US and elsewhere which is spurring demand for riskier asset classes such as shares. International government bonds posted negative returns due to the prospect of rising global inflation and continued concern over the ability of many western governments to control record fiscal deficits. With data suggesting that the US recovery gathered momentum in recent months, the Federal Reserve's November decision to pump more liquidity into the financial system is triggering concern over the inflation outlook. Corporate bonds also delivered negative returns. Growing fears bond investors may in future be required to share some of the burden with governments in the event that any more European banks need to be bailed out led to a sharp fall in the price of some subordinated (less-highly-rated) bonds issued by the banking sector. That meant corporate bonds slightly underperformed government peers.

Source: Bloomberg

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

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