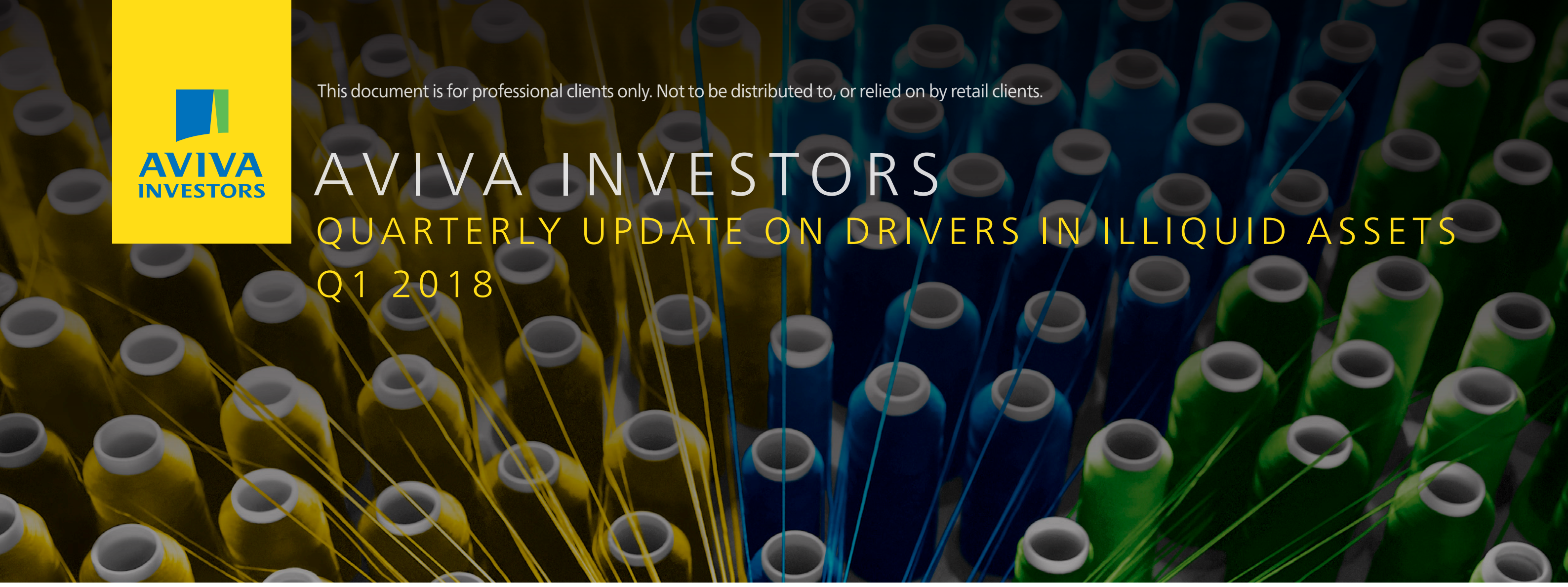


AVIVA INVESTORS
QUARTERLY UPDATE ON DRIVERS IN ILLIQUID ASSETS Q1 2018

In our regular update on alternative income assets, we assess the attractiveness of lending to small and mid-size European corporates and share our outlook for infrastructure debt. We also provide an update on the illiquidity premia available from a range of private assets, alongside our regular update on the spreads achievable across private assets of varying credit quality.

Two key themes

Private Corporate Debt: Attractive risk-adjusted returns in small/mid cap lending

SMALL/MID CAP LENDING CURRENTLY OFFERS ATTRACTIVE RISK-ADJUSTED RETURNS

While growth in Europe is accelerating, so is issuance of leveraged loans. November 2017 was the highest month of issuance for euro leveraged loans since the global financial crisis, with more than €15 billion of transactions. In such a competitive market, there has been significant spread compression in the last twelve months.

In our view, better opportunities can be found in less crowded areas of the market, such as lending to European small/mid caps (companies with EBITDA >€10m), with B or B+ type ratings. We believe the small and mid-cap segments are growing and resilient, with better risk-adjusted returns when compared to the covenant-light structures applied to the large cap segment. Yields of four per cent can be achieved for B or B+ credits.

Many companies in these sectors are seeking to diversify funding sources outside banks, hoping for a long-term strategic partner. This is a role pension schemes and insurance companies may be well placed to provide; non-bank lending already accounts for around 40 per cent of the market. Borrowers tend to be more conservative in their requirements than large caps, yet the universe is still diverse enough for managers to be selective. The annual flow of debt is estimated at around €54 billion in France alone, in a wide variety of sectors. This is a market in which scale is important; transactions tend to have an average ticket size of between €10 million and €20 million.

Infrastructure Debt: Opportunities in transport, energy and telecoms

OPPORTUNITIES IN INFRASTRUCTURE DEBT

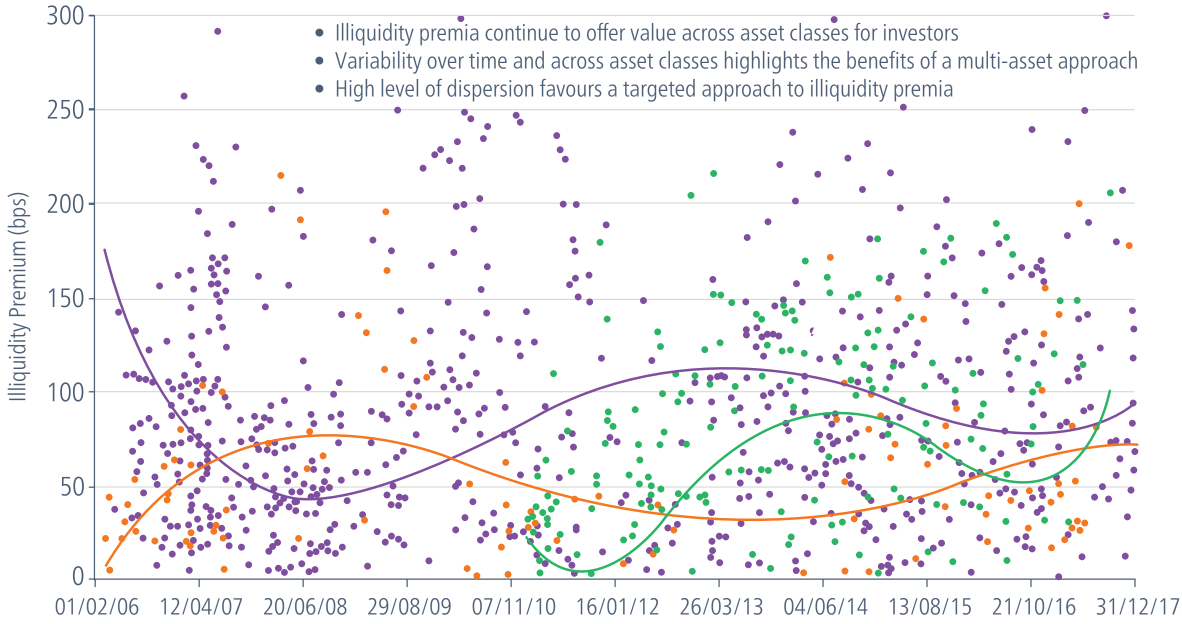
The rail sector promises much in 2018, with opportunities across Europe, in particular France and the UK. Within the UK, aside from further rolling stock deals associated with the Wales & Borders and South East franchises, Network Rail seems set to return to the market with its divestment programme and a willingness to embrace potential Public-Private Partnership (PPP)-type models for capital investment.

In energy, the wind sector is set to remain busy with new financings possible for the jumbo Hornsea project, the world's largest offshore windfarm in the North Sea, as well as a range of opportunities across France, Ireland and the Nordics.

There is also expected to be activity around Spain's new €5 billion PPP investment programme, which is targeting the construction of around 2,000 kilometres of roads. In the UK, a number of PPP projects that closed between 2010 and 2012 still exist, which provides material refinancing gains to the public sector and sponsors. 2018 may see the largest of these refinancing opportunities come to market, the M25 PPP.

Funders will continue to look at wider opportunities in new asset classes. The move to smart meters needs to pick up pace, which may drive activity. In addition, broadband investment may offer opportunities for infrastructure finance across Europe, as network rollout allows new entrants into markets historically dominated by incumbent telecoms companies.

TRENDS IN ILLIQUIDITY PREMIA (2006-2017)



For illustrative purposes only. Note: Axes truncated above 300 bps and below 0 bps. Source: Aviva Investors, as at 29 December 2017.

INDICATIVE SPREADS P.A.*

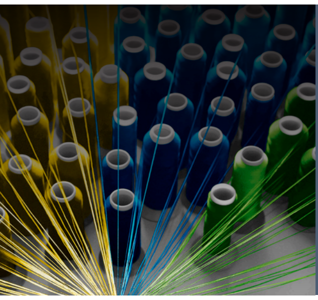
	Infrastructure Debt	Infrastructure Equity	Real Estate Finance	Real Estate Long Income	Structured Finance	Private Corporate Debt
AA/A-rated	GBP:100-170 bps EUR: 80-140 bps	-	GBP: 135-190 bps EUR: 75-140 bps	GBP: 180-270 bps EUR: 180-270 bps	GBP: 75-200 bps	GBP: 70-160 bps
BBB-rated	GBP: 120-220 bps EUR: 110-225 bps	-	GBP: 190-290 bps EUR: 130-210 bps	GBP: 270-300 bps EUR: 270-300 bps	GBP: 175-300 bps	GBP:140-220 bps
BB/B-rated	GBP:240-330 bps	-	GBP: 300-450 bps EUR: 220-350 bps	-	GBP: 225-350 bps	GBP: 220-500 bps EUR: 210-450 bps
High quality**	-	GBP: 400-900 bps	-	-	-	-

*Additional yield above comparable government bonds **High quality: unlevered infrastructure with largely predictable cash flow. Source: Aviva Investors (for illustrative purposes only). All data as at 29 December 2017. The future returns and opinions expressed are based on Aviva Investors internal forecasts and should not be relied upon as indicating any guarantee of return from an investment managed by Aviva Investors nor as advice of any nature.

RISKS

ILLIQUIDITY: Alternative Income assets are significantly less liquid than assets traded on public markets. Where funds are invested in infrastructure/real estate, investors may not be able to switch or cash in an investment when they want because infrastructure may not always be readily saleable. If this is the case, we may defer a request to redeem the investment.

VALUATION: Investors should bear in mind that the valuation of real estate/infrastructure is generally a matter of valuers' opinion rather than fact. The value of an investment and any income from it may go down as well as up and the investor may not get back the original amount invested. Past performance is not a guide to future returns.The value of an investment and any income from it may go down as well as up and the investor may not get back the original amount invested. Past performance is not a guide to future returns.



FIND OUT MORE:

If you wish to know more about our Alternative Income Solutions, please contact your usual representative or our Global Client Solutions team:

Telephone:
0207 809 6000

Or visit us at:
www.avivainvestors.com

Important information

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