

Business review

Aviva Investors

What we do

Aviva Investors is a global asset management business dedicated to building and providing our clients with focused investment solutions. Our client base ranges from among the largest financial institutions to individuals investing for the future. We operate under a single brand in 15 countries so our clients benefit not only from our unique access to, and experience of, our local markets – but also from our ability to leverage an infrastructure that comes with global representation.

Employees and locations

1,298

2007: 967

Australia	Ireland	Singapore
Canada	Italy	Spain
China	Luxembourg	Taiwan
France	Poland	United Kingdom
Germany	Romania	United States

Operating brands

“What can you do for me?”

Case study:

Each client has specific needs

Working in partnership with them, we listen to client requirements, understand their objectives and approach to risk, and then design a bespoke solution.

We have a wide array of investment capabilities to draw on. As a unified provider we can now tap into virtually every type of investment opportunity all over the world, giving our clients access to more products than ever before. Our expertise and global and local knowledge, meanwhile, help us select the right solutions to match each client's needs.

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What's happened?

Global financial markets in turmoil

- Global banking crisis, frozen credit markets and falling equity markets
- Commercial and residential property prices fell sharply
- Commodity prices at record lows

Investors look for security

- Government bonds and guaranteed products perform well in volatile market conditions

Stimulus packages provided by governments

- Government made huge sums of money available to banks in an attempt to restart credit markets
- Interest rate cuts and tax incentives to stimulate spending
- Other incentives provided to industries to shore up businesses

Economies around the world slipping into recession

- US and UK moved into official recession in fourth quarter of 2008

What action have we taken?

Consolidated our fund management business under Aviva Investors

- As a global asset management business we can provide our clients with focused investment solutions

Risk management

- The risk management culture across the group continues to give significant competitive advantages as we grow our external business around the globe

Protecting our clients

- We took action to improve transparency for our clients in liquidity funds

Global research

- We launched a global research centre that will allow collaboration and sharing of information worldwide

What have we achieved?

Funds under management

£236bn

2007: £235bn

MCEV operating profit

£41m

2007: £64m

IFRS operating profit

£114m

2007: £147m

What's next?

Our medium-term targets are to:

- Complete the integration of our business across the world
- Transform the business model
- Increase our third party business
- Grow contribution to group profits

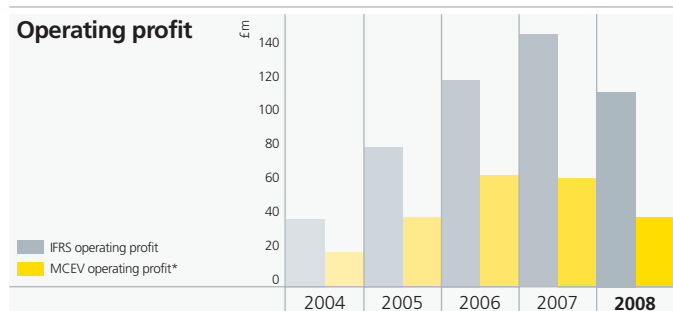
Business review

Aviva Investors continued

Fund management

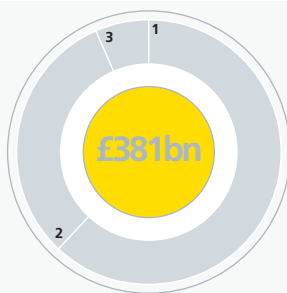
	IFRS operating profit		MCEV operating profit	
	2008	2007	2008	2007
United Kingdom	64	70	34	40
Europe	35	43	9	15
North America	14	27	(3)	3
Asia Pacific	1	7	1	6
Total Aviva Investors	114	147	41	64
Other fund management	9	32	1	26
Total Aviva FM results	123	179	42	90

Note: Full year 2007 has been restated to reflect the new Aviva Investors' management structure. The fund management portion of the US business has been separately identified with a £24 million transfer from the life business result.



Analysis of 2008 funds under management (£bn)

	£bn
1 Aviva investors	236
2 Other Aviva managers	120
3 External fund managers	25
Total	381



Profile and strategy

Our global asset management arm, Aviva Investors, is a leading institutional asset management company**. We operate under a single brand in 15 countries across our regions of the United Kingdom, Europe, North America and Asia Pacific.

The business combines the former Aviva operations in the UK (Morley), France (Aviva Gestion d'Actifs), Ireland (Hibernian Investment Managers), Poland (CUIM Polska), Romania (CertInvest), North America (Aviva Capital Management, Aviva Investment Canada) and Australia (Portfolio Partners). In 2008 we also established operations in China, Taiwan and Singapore.

Following our successful rebranding in September we are focusing on investment performance and client solutions and service. Under the leadership of chief executive Alain Dromer, we plan to take advantage of scale and build on our legacy strengths to develop a presence in new and rapidly growing markets.

We aspire to increase operating profits by four times and to double our contribution to the group as we continue to integrate and grow the business around the globe. We are able to leverage the strong awareness of Aviva through our Aviva Investors sub-brand and will contribute to the group vision of "prosperity and peace of mind" while developing a distinctive high performance culture and global reputation as a leading institutional asset management business.

The marketplace

2008 was one of the most volatile economic periods in history with a wide range of assets posting record or near record falls. What began in 2007 as a crisis in US sub-prime mortgages spread first through the global banking system and then the broader economy. As credit markets froze, investors aggressively cut leverage causing many other asset prices to collapse.

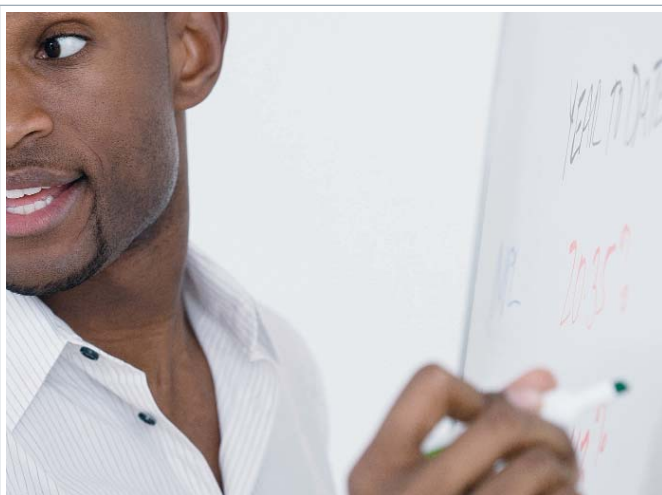
Policymakers coordinated a series of measures aimed at restarting lending and supporting economies and by year-end a large part of the global banking system was effectively under government control. In a further step, huge stimulus packages were announced by governments around the world, designed to limit the damage as their economies slipped into recession. However, by the end of December most of the world's equity markets had fallen by around 40% for the year.

Within equity markets there was nowhere to hide in 2008, with all global markets being dragged down together. UK equities fared better than most despite clear signs of a serious recession. Bond markets were more varied with government bonds performing well as investors sought security. The spread on investment grade corporate bonds widened to unprecedented levels as investors became scarce and default risks increased. Real estate investments generally fared badly with both commercial and residential property prices falling sharply, particularly in the US and the UK. Finally, commodity prices, which had performed very well early in 2008, collapsed along with global growth expectations.

* On an MCEV basis for 2008 and 2007. Prior years presented on an EEV basis.

**34th globally, 3rd based in the United Kingdom, based on Cerulli Associates' December 2007 ranking of asset managers by assets under management.

“Award winning education programme”



Case study:

Top marks for Trustee Tutor

Trustee Tutor is our award-winning education programme. We use it to give trustees the knowledge to challenge and gain the most from their fund managers and consultants. Through various learning and development media, it caters for different knowledge levels and learning styles.

We've already received positive feedback from numerous trustees. "An excellent series of seminars pitched at the right level and well delivered," comments one trustee. Meanwhile, another adds: "Excellent presenters. Very well paced. Good coverage of the topics at an appropriate level." Finally, one trustee concludes: "As a new trustee I've found this an excellent starting point."

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Operational performance

Against this economic backdrop, the launch of Aviva Investors in September was well received by clients, industry analysts and the media. The risk management culture and the full support of the group continue to be significant competitive advantages as we grow our external business around the globe.

In 2008, falling asset prices and a global flight to more liquid and transparent investments impacted our business in both negative and positive ways. In line with the broader market we saw significant outflows of cash from the open-ended funds in our UK real estate business. However, we also experienced record month-on-month net inflows into our sterling and euro liquidity funds. As part of an effort to promote transparency and to protect clients' liquidity in extremely volatile markets we moved two of our constant net asset value liquidity funds to a variable net asset value policy in November. This decision was considered to be in the best interest of investors as a variable net asset value provides a more accurate reflection of the underlying value of the funds on a daily basis.

2008 was a busy year for us and key operational developments included:

Business Development

Alain Dromer built his executive team in 2008. In addition, further key appointments were made in the year, increasing the capacity of our global organisation while shaping a high performance culture that continues to attract, cultivate and retain talent.

We are building a business focused on clients, aiming to generate transferable benefits from partnerships with both internal and external clients and excel at cross-border sales. We delivered significant progress in client services in 2008, with a substantial improvement in the UK institutional business rating by the annual Greenwich survey.

Investment performance

We have aligned the organisation to long-term investment trends, supporting our focus on investment performance. This includes the separation of our investment offerings into components which enables us to customise and package investment solutions across a range of client segments and needs.

We reshaped our investment portfolios by separating those that benefit from a global scale and reach from those that leverage local market knowledge. We also launched a global research centre that allows investment teams to collaborate and share internal research and information worldwide, strengthened our platform of investment solutions and established a global solutions team.

Business review

Aviva Investors continued

Cross-border sales and third-party sales

We created a scalable infrastructure in 2008. This included using our Luxembourg SICAV platform to launch the Aviva Investors Australian Resources Fund, Aviva Investors Global High Yield Bond Fund, Global Equity Income Fund and the Aviva Investors Renewable Energy Fund. This platform is expected to generate further transferable benefits from our partnerships with both internal and external clients and to drive cross-border sales.

Real estate

Our real estate business is the world's largest manager of European commercial real estate assets* and is well positioned to build a global business. It has a large and highly experienced team, a reputation for innovation, offices in six locations across the world, a tried-and-tested investment process, exemplary customer service, a strategy team producing quality research and a constant emphasis on improving and expanding its capability. Highlights of 2008 included the launch of the Aviva Investors Asia Pacific Property fund, the first and only daily priced fund focused on the region, and the beginning of the integration of the French real estate team. Additional developments included the acquisition in April of Madison Harbor LLC, a US real estate multi manager.

As a result of these actions, our commitment to excellence and performance during the year, we were recognised by our industry through winning several prestigious awards including:

Fixed income hedge fund of the year, G7 Fund, Eurohedge Awards

All Quality Long Convertible Bond Manager, No. 1 for 1-Year Period ended 30 June 2008, eVestment Alliance (North America)

Silver medal, European Convergence Equity, five-year performance, Investir magazine (France)

Best Australian equity large-cap share fund, Portfolio Partners Elite Opportunities Trust, Australian Financial Review Smart Investor Blue Ribbon Awards

Property Manager of the Year, European Pension Awards

Best Trustee Education Provider, Trustee Tutor, Engaged Investor Trustee Awards



Case study:

Trusted to deliver solutions

We're not just investment managers. We also want our key institutional clients to regard us as trusted advisers – offering sound advice and contributing to their strategic planning.

When one of our largest pension fund clients wanted to de-risk their portfolio, we worked with them to devise a solution. The plan utilised derivative instruments and bond purchases to meet risk objectives. Crucially, it was also sufficiently flexible to adapt to current volatile market conditions.

So we're delighted to see its implementation now well underway.

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“A trusted adviser”

* Based on findings from Property Funds Research/FT Banker magazine (issued May 2008, data as at December 2007).

Financial performance

Total funds under management at 31 December 2008 were £236 billion (2007: £235 billion). In common with the asset management industry in general, market factors had an adverse impact on the value of our funds under management. However the fall in equity and property capital values and outflows from some open-ended property funds was more than offset by exchange gains as sterling declined against other major currencies towards the end of the year, increasing the value of our non-sterling investments.

Total operating profit was £116 million (2007: £151 million). Of this, fund management operating profit totalled £114 million (2007: £147 million), principally derived from our UK, French and North American businesses. The pooled pension business, reported in the UK long-term savings segment, contributed a further £2 million (2007: £4 million).

While the decline during the year in funds under management in local currency terms had an adverse impact on management fee income, this was offset by strong results from the UK stock lending business and performance fees recognised. During the year we continued to invest in developing a scalable, cost efficient operating platform, ensuring that cost growth is controlled and focused on adding value for our clients. However, as a result of the decline in underlying management fee income, the cost income ratio increased to 71% (2007: 62%).

Outlook

The global economy begins 2009 in the midst of a deep recession. Industrial production and corporate profits are falling sharply and unemployment rising equally fast. Economic growth is expected to be significantly negative in 2009 but should benefit from the considerable amount of money injected by governments worldwide and is likely to recover in 2010 led by the US and China. From start to finish the recession is likely to cut western GDP by at least 4%, with the risk to that figure being on the downside. Looking out beyond 2009, we expect that the de-leveraging of the private sector – a rise in savings rate – is likely to remain in place for several years. With no return to normal lending and a sustained rise in savings, we expect economic growth to be very subdued over the next cycle. Chinese growth should be helped by a reversal of the prior objective to cool growth, with increased lending and infrastructure building.

For markets we expect short term interest rates to stay very low and bond yields to be similarly low. Equity valuations now appear cheap globally, providing good return prospects over the very long term, with other assets such as corporate bonds are cheaper still. In the short run however equities will struggle to make progress until closer to the trough in global economic activity. This could allow some recovery in asset prices later in the year, but the risks remain to the downside.

Conditions in real estate markets remain challenging, with most expected to see further capital value decline during the course of this year as the economic contraction feeds through into lower corporate demand for property space and investor sentiment remains weak.

Aviva Investors has a growth plan in place designed to reflect the current environment that is focused on enhancing the delivery of investment performance and third party and cross border sales.