

# Enhanced Guarantee High Yield Asset Strategy



Aviva's Enhanced Guarantee life insurance and annuity products offer you a choice of Interest Earnings Strategies that best fit your goals†.

## What are Interest Earnings Strategies?

Interest Earnings Strategies are segments within the Company's general account which are managed according to specific guidelines. One of these Strategies is the High Yield Asset Strategy, which seeks to achieve a superior return by allocating a portion of this portfolio to high yield corporate bonds. Each Strategy and the guaranteed minimum contract interest rates are backed by the entire general assets of the Company.

## What Are High Yield Bonds?

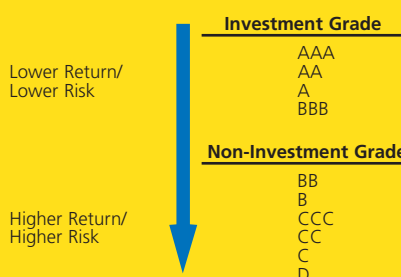
A high yield bond is simply a bond that is considered non-investment grade by a major rating agency (see chart at right). These ratings reflect the issuer's current ability to meet the required interest and principal payments on a timely basis. The less secure the issuer's financial position, the greater the yield the bond market will require. In addition, high yield bonds tend to be less liquid than investment grade bonds. As a result of the higher default risk and reduced liquidity, non-investment grade bonds will pay higher interest than they would on bonds considered investment grade.

## Why Are Some Bonds Categorized As Non-Investment Grade?

Bonds categorized as non-investment grade, or high yield, usually fall into one of several categories:

- › *Smaller companies that lack the operating history or capital strength to qualify for investment grade status;*
- › *Former investment grade companies that have experienced problems, sometimes related to changing market demand, recessions, or new competition;*
- › *Companies that borrow heavily to finance an acquisition or buyout, or to fend off an acquisition or buyout.*

## Bond Rating Categories\*



## Do High Yield Bonds Have A High Default Risk?

High yield bonds do have a greater default risk than investment grade bonds. The average default rate varies across the different rating categories with, not surprisingly, higher default rates found in the lower rating categories. Just how high are these default rates? Let's take a look at the following chart:

## Average Annual Default Rates

<b>Investment Grade AAA</b>	0.03%
<b>Investment Grade BBB</b>	0.15%
<b>High Yield BB</b>	1.21%
<b>High Yield B</b>	6.53%

Source: Moody's Investors Service, Default & Recovery Rates of Corporate Bond Issuers: A Statistical Review of Moody's Ratings Performance 1979-2001, February 2002 (converted from Moody's bond rating table)  
Past performance is not a guarantee of future results.

What is important to note is that, although high yield bonds clearly have a greater default risk than investment grade bonds, research shows that high yield bonds have historically compensated the investor for the additional risk, thus providing the opportunity for greater return. The investment policy for this Strategy limits purchases to BB rated securities.

† This product is not an investment and not all Strategies are available on all products.

\* As defined by Standard & Poor's

The products described in this flyer are underwritten and offered exclusively by Aviva Life Insurance Company.

## Enhanced Guarantee

# High Yield Asset Strategy

### Why Do Insurers Include High Yield Bonds In Their Portfolios?

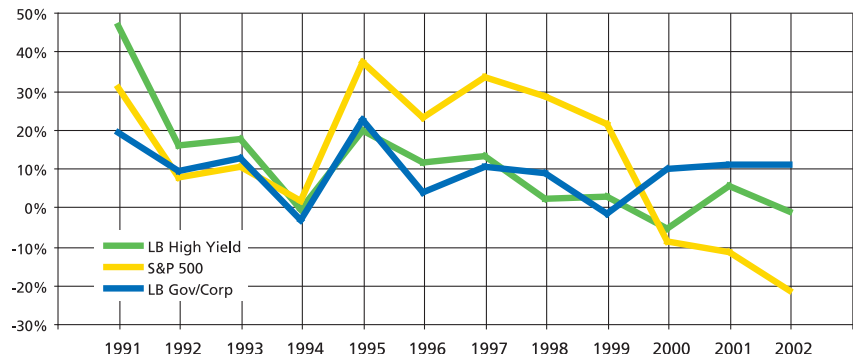
High yield bonds may be ideally suited as a part of an insurance company's diversified portfolio, as they offer some of the characteristics of a stock, but generally with less volatility. This is because their price is more sensitive to corporate earnings and the economic outlook than a typical bond. In a rising interest rate environment, where investment grade bonds typically lose value, high yield bonds frequently perform relatively better than investment grade bonds as the rise in corporate revenue (tied to an inflationary period) outweighs the threat of increasing interest rates. In addition, in a healthy equity market some high yield issuers replace debt with equity, improving their financial situation, thereby boosting their bond price. The converse is true in a poor equity market.

While high yield bonds do share some of the characteristics of stocks, their overall returns tend to be less volatile because coupon income is a significant part of their total return. This income has the effect of helping to buffer downward changes in price.

### Historical Profile Of High Yield Bonds

Comparing high yield bonds with investment grade bonds and stocks can best be done by looking at historical returns. Lehman Brothers research shows that the performance of high yield bonds has historically compared very favorably to other asset classes. In fact, on a total return basis, high yield bonds outperformed high-grade bonds in seven of the past 12 years.<sup>1</sup>

S&P 500, High Yield and Investment Grade Bonds



Source: Standard & Poor's and Lehman Brothers indices.

### Your Aviva Representative Can Tell You More

We are proud to offer the High Yield Asset Strategy as a part of our Enhanced Guarantee series of fixed life and annuity products. A portion of the portfolio which supports this Strategy is used to purchase BB non-investment grade bonds. To request more information about Aviva's Enhanced Guarantee products or to obtain a more detailed description of the various Interest Earnings Strategies, please call your Aviva representative.

<sup>1</sup> Lehman Brothers U.S. Investment-Grade Credit Index and Lehman Brothers U.S. High-Yield Corporate Index, through December 2002.

Past performance is not a guarantee of future results.

The Company does not authorize its agents, employees or representatives to give legal, tax or accounting advice. The information contained herein is our understanding of current laws as they relate to annuities and life insurance. These laws are subject to change in the future. Please consult your personal advisor for any needed legal, tax or accounting advice.

**Aviva Life Insurance Company**

108 Myrtle Street  
North Quincy, Massachusetts 02171  
[www.avivausa.com](http://www.avivausa.com)

© 7/03 Aviva



# Aviva Life Insurance Company Real Estate Securities Strategy

## What Are Real Estate Investment Trusts? (REITs)

Most people think of real estate in terms of their house or condominium, but it includes more. Some companies own and manage real estate — office buildings, apartments, shopping malls, warehouses, or industrial space. Many of these companies incorporate as Real Estate Investment Trusts (REITs). REITs are “conduit” or “pass-through trusts,” not corporations, and common stock of these companies is traded on the major stock exchanges.

Tax law requires these companies to pay a dividend of at least 90% of taxable income every year. This makes REIT stocks a hybrid asset class — they are common stock, but their value is driven by the cash flow generated by and the value of the real estate owned by the REIT company.

These companies can also raise funds by issuing bonds. These bonds are similar to most corporate bonds, but the issuing company specializes in real estate.

*As one of the strongest companies in the industry, Aviva is proud to offer our Real Estate Securities Interest Earnings Strategy as part of our Enhanced Guarantee series of fixed life insurance and annuity products. A portion of the portfolio which supports this Strategy is Real Estate, which will include Investment Trust REIT stocks and, to a lesser degree, other Real Estate-related securities. Please keep in mind that selecting this or any other Strategy does not mean that you are investing directly in a REIT or any security.*

## Why Include REITs In An Aviva Portfolio?

### Diversification

Returns from real estate assets have a low correlation with stocks and corporate bonds. Thus, when stocks are performing poorly, real estate may perform well, offsetting stock market losses. The chart below shows how the returns of the S&P 500 Index and the NAREIT+ Equity REIT Index behave differently over time. This demonstrates diversification in action, and that is especially important when markets are unusually volatile because a portfolio owning both asset classes will produce, in total, more consistent returns.

## Access To Commercial Real Estate Investments

Pension funds, university endowment funds, and life insurance companies typically invest a moderate portion of their assets in commercial real estate. REITs divide commercial real estate ownership into securities that individual investors can own. This lets individuals diversify their investments just like institutional investors.

### Annual returns\*



National Association of Real Estate Investment Trusts

\* For illustrative purposes only. Past performance is not a guarantee of future results.

The products described in this flyer are underwritten and offered exclusively by Aviva Life Insurance Company.

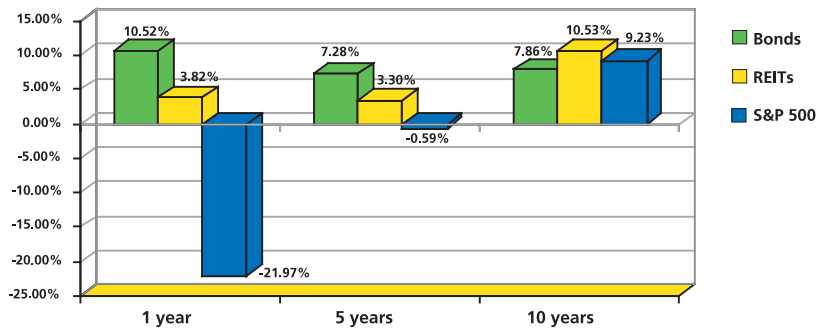
# Aviva Life Insurance Company

## Real Estate Securities Strategy

### A Mix Of Current Income And Capital Appreciation

Real estate provides current income from the rents charged to tenants, plus capital gains from the appreciation in the underlying properties owned.

#### Annual Returns\*



Compound annual returns for the Lehman Credit Index of U.S. corporate bonds, the NAREIT Equity REIT Index, and the Standard & Poor's 500 Index for 1-, 5-, and 10-year periods ending December 31, 2002.

### Your Aviva Representative Can Tell You More

To request more information or to obtain a more detailed description of our various Interest Earnings Strategies, please contact your Aviva representative.

### Background On Real Estate Investment Trusts

The Real Estate Investment Trust Act was signed by President Eisenhower in 1960, which paved the way for REITs.

However, the REIT structure didn't become popular until after tax law changes in the 1980s eliminated many tax shelters involving real estate. The 1990-91 recession and the savings and loan crisis also curtailed access to other traditional sources of real estate investment.

Real estate developers have been able to replace these capital sources by issuing stock in the form of REITs. Investors have supplied funds by investing in REITs, which have well-known, proven tax treatment that many 1980s tax shelters lacked. As a result, the REIT market has matured into a professionally managed, institutional-grade asset class.

### A Word About Taxes

REIT dividends are taxed as regular income, but a portion can be deferred until actual sale. However, when REITs are held within an annuity or life insurance product, the dividend is tax deferred and the life insurer, rather than the individual contract owner, handles the taxes because it owns the actual REIT stock. Therefore, an annuity or life insurance contract may be the most efficient way for you to diversify your holdings with real estate securities. Contract holders do not own any Real Estate Securities as a result of choosing a REIT Strategy.

\* For illustrative purposes only. Past performance is not a guarantee of future results.

The Company does not authorize its agents, employees or representatives to give legal, tax or accounting advice. The information contained herein is our understanding of current laws as they relate to annuities and life insurance. These laws are subject to change in the future. Please consult your personal advisor for any needed legal, tax or accounting advice.

# Enhanced Guarantee Interest Earnings Strategies



**Aviva Life Insurance Company's Enhanced Guarantee life insurance and annuity products offer you a choice of Interest Earnings Strategies that fit your goals in life.<sup>†</sup>**

## What are Interest Earnings Strategies?

Interest Earnings Strategies are segments within the Company's general account that are managed according to specific guidelines.

## Why Buy Enhanced Guarantee?

A combination of strong guarantees and various Interest Earnings Strategies provides you with certainty of "Fair Play for Life".

With our Enhanced Guarantee products, you are also guaranteed a minimum interest rate as specified in the contract. Please refer to your product brochure for more details on the minimum guarantee and which strategies products are available in your state. Certain products contain both MVA and non-MVA strategies.

## What is Market Value Adjustment (MVA)?

A Market Value Adjustment (MVA) is a change made to your contract values to reflect market fluctuation. This adjustment may have a positive or negative impact on your contract values. An MVA will not be applied to any permitted surrender penalty free withdrawals, upon death or on required minimum distributions. An MVA applies only to specific Interest Earnings Strategies and Aviva limits the amount of adjustment.\*

## The following Interest Earnings Strategies have a Market Value Adjustment (MVA):\*

### U.S. Investment Grade Corporate Bond Strategy:

- › *Seeks to maintain a very competitive, but stable return.*
- › *Assets will be managed to control risk and utilize capital gains and losses to maximize total return over a long period.*
- › *The Company will purchase investment grade corporate bonds, private placement bonds and both fixed and adjustable rate mortgage-backed securities to form the core of this Strategy. Additionally, the Company will purchase U.S. government and agency obligations.*
- › *The Company will not purchase non-investment grade bonds or real estate to support this strategy.*
- › *Market Value Adjustment applies.\**

### Global Investment Grade Corporate Bond Strategy:

- › *Seeks to maintain a very competitive, but stable return.*
- › *Assets will be managed to control risk and utilize capital gains and losses to maximize total return over a long period.*
- › *The Company will purchase investment-grade corporate bonds, private placement bonds and both fixed and adjustable rate mortgage-backed securities to form the core of this Strategy.*

› *Additionally the Company will purchase dollar-denominated international corporate bonds. The proportion of the portfolio allocated to international corporate bonds will typically be less than 50%, but may vary, depending upon market conditions.*

› *All assets purchased will be investment-grade equivalent and all assets will be U.S. dollar-denominated to avoid currency risk.*

› *The Company will not purchase real estate or bonds rated non-investment grade to support this Strategy.*

› *Market Value Adjustment applies.\**

<sup>†</sup> Not all strategies are available in all states or on all products.

\* MVA strategies are not available in all states.

All products described in this flyer are underwritten and offered exclusively by Aviva Life Insurance Company.

AL03E127US

# Interest Earnings Strategies

## Convertible Security Strategy:

- › Seeks to achieve a very competitive return by allocating a portion of the portfolio to purchase convertible bonds, convertible preferred stocks, and convertible mutual funds that have a measure of equity-type returns in addition to the usual coupon income.
- › The proportion of the portfolio allocated to convertible securities will typically be less than 35%, depending upon market conditions.
- › The Company will purchase investment-grade corporate bonds, private placement bonds and both fixed and adjustable rate mortgage-backed securities to form the core of this Strategy.
- › Assets will be managed to control risk using capital gains and losses to maximize total return over a long period.
- › The Company will not purchase real estate or non-investment grade bonds to support this Strategy.
- › Additional risk of volatility exists due to the equity-linked nature of convertible securities and the lesser degree of liquidity in some assets.
- › Has more potential for credited interest rate fluctuations.
- › Market Value Adjustment applies.\*

## High Yield Asset Strategy:

- › Seeks to achieve a superior return by allocating a portion of this portfolio to non-investment grade corporate bonds.
- › The proportion of the portfolio allocated to non-investment grade corporate bonds will typically be less than 35%, depending upon market conditions.

- › The Company will purchase investment-grade corporate bonds, private placement bonds and both fixed and adjustable rate mortgage-backed securities to form the core of this Strategy.
- › The Company will not purchase any real estate to support this Strategy.
- › These assets carry high credit and liquidity risk and, therefore, offer potentially higher yields than investment grade corporate bonds.
- › Potentially brings better balance to products across broader array of interest rate environments.
- › Market Value Adjustment applies.\*

## Real Estate Securities Strategy:

- › Seeks to achieve a highly competitive return by allocating a portion of the portfolio to purchase common stock and debt issued by real estate investment trusts (REITs).
- › The proportion of the portfolio allocated to real estate securities will typically be less than 35%, depending upon market conditions.
- › The Company will purchase investment-grade corporate bonds, private placement bonds and both fixed and adjustable rate mortgage-backed securities to form the core of this Strategy.
- › The Company will not purchase bonds rated non-investment grade to support this Strategy.
- › Additional risk of volatility exists due to the long-term nature of real estate investments, low correlation with returns from fixed income and equity securities, and a more aggressive approach to investing.
- › Market Value Adjustment applies.\*

## The following Interest Earnings Strategies do not have a Market Value Adjustment (MVA):

### Balanced Investment Grade Strategy:\*\*

- › Seeks to maintain a competitive but stable return balanced with liquidity.
- › The Company will purchase investment grade-bonds, private placement bonds and both fixed and adjustable rate mortgage-backed securities. In addition, the Company will purchase U.S. government and agency obligations and other investments with quality features similar to those of the securities explicitly listed here.
- › The Company will not purchase non-investment grade bonds or real estate to support this Strategy.
- › Market Value Adjustment does not apply.

### Medium Term Investment Grade Strategy:\*\*\*

- › Balances a competitive yield with quality and liquidity levels.
- › The Company will investment-grade bonds, private placement bonds and both fixed and adjustable rate mortgage-backed securities to form the core of this Strategy.
- › Market Value Adjustment does not apply.

\* MVA Strategies are not available in all states.

\*\* Not available for TSA products. Also not available for MVA Plan on non-TSA annuities.

\*\*\*Not available on non-TSA annuities.

# Convertible Security Interest Earnings Strategy

Enhanced Guarantee Convertible Bonds

*We are proud to offer our Convertible Security Interest Earnings Strategy as a part of our Enhanced Guarantee series of fixed life insurance and annuity products from one of the strongest companies in the industry. A portion of the portfolio which supports this Strategy is made up of convertible bonds and preferred stock. Please keep in mind that by selecting this Strategy you are not investing in any security.*

## What Are Convertible Bonds?

In many ways, a convertible bond is a hybrid between a stock and a bond. It is like a traditional bond in that it pays a fixed interest rate. What makes it unique is that it has a built-in conversion feature which allows the owner to exchange the bond for a specified number of shares of common stock when the stock reaches a certain price, known as the conversion price. This allows the potential for stock-like capital gains.

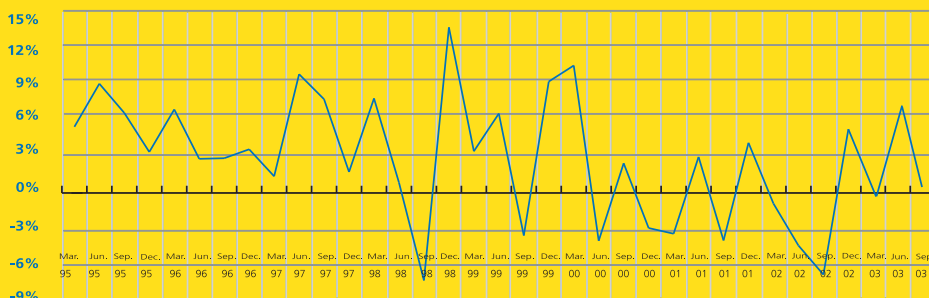
## Why choose a Convertible Security Interest Earnings Strategy?

Because convertible bonds are less volatile than stocks and have a low correlation with bond returns, they generally will hold their ground during times of rising interest rates because the option to convert may gain value. If the stock price falls, the convertible still has a floor value as a coupon-paying bond.

As a result, the return on a convertible bond typically falls between that of a stock and an intermediate-term bond. An Ibbotson Associates study found that convertible bonds go up about 70% of the price rise in the stock it is tied to. If the common stock falls, the convertible suffered at only 53% of the decline in the common stock's price. The downside protection of convertibles tilts the odds in the portfolio manager's favor. This positive risk-reward relationship is known as favorable leverage.

Aviva will purchase convertible bonds in support of the Convertible Security Interest Earnings Strategy. If you select this Strategy, the interest credited to your contract will be based in part on the investments within the Strategy.

Merrill Lynch Convertible Index (Investment Grade)\*



\* Merrill Lynch, September 2003. This information is for illustrative purposes only.

The product described in this flyer is underwritten and offered exclusively by Aviva Life Insurance Company, also referred to herein as "Aviva."

AL04E076US



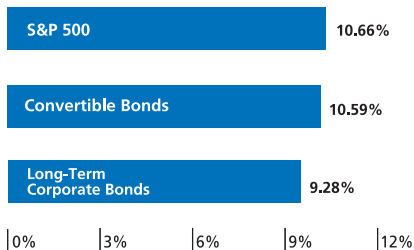
## Enhanced Guarantee

# Convertible Bonds

### Historical Profile Of Convertibles

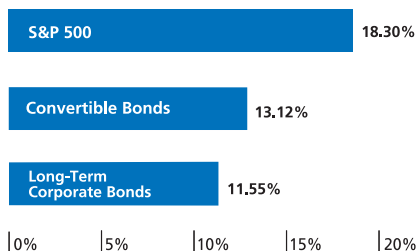
Comparing convertible securities with stocks and bonds can best be done by looking at historical returns. Ibbotson Associates updated their convertible securities study through 2002 and found that since 1973, convertible bonds produced a 10.59% annualized return versus an S&P 500 return of 10.66% and long-term corporate bond return of 9.28%.

#### S&P 500, Convertible Bonds And Long-Term Corporate Bond Returns\*



They also found that the risk of convertible bonds was significantly less than in the S&P 500 and was slightly less than the risk associated with long-term corporate bonds.

#### Standard Deviation of Monthly Returns\*



Ibbotson Associates also found that there were high correlations between convertible securities and both large and small capitalized stocks (0.83 and 0.84), but lower correlations with other bond groups (0.40) for intermediate-term corporate bonds. They concluded that convertible securities provide meaningful diversification benefits to fixed-income portfolios.

### Your Aviva Representative Can Tell You More

To request more information about Aviva's Enhanced Guarantee products or to obtain a detailed description of other Interest Earnings Strategies, please call your Aviva representative.

\* Statistics are for the 1973-2002 period based on an Ibbotson Associates study sponsored by Goldman Sachs. These are for illustrative purposes only.

The above information represents Aviva's current understanding of the features and history of convertible bonds. Before choosing the Convertible Security Interest Earnings Strategy as part of your Enhanced Guarantee product, you may wish to seek advice from your tax advisor or financial planner.

**Aviva Life Insurance Company**  
108 Myrtle Street  
North Quincy, Massachusetts 02171  
[www.avivausa.com](http://www.avivausa.com)