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AMP Capital Investors Limited
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July 2010

AMP Capital Enhanced Yield Fund - Off-platform Class H

Investment objective

To provide a regular and consistent level of income. To provide returns above the Fund's performance benchmark (after costs and before tax), while accepting low to medium levels of volatility in returns.

Type of fund

The Fund invests in a mix of traded high yield securities and private debt investments.

Performance benchmark

RBA Cash Rate

Inception date

22 Mar 2006

Fund size

\$959.97 million

Management costs

1.1693%

Distribution frequency

Quarterly

Buy/sell spread

Nil

Minimum initial investment

\$30,000

Investment approach

Due to the Fund's liquidity position, investors no longer have a right to withdraw, nor are investors able to withdraw, funds by submitting withdrawal requests. The Fund currently makes pro rata special distributions of capital and income to investors. AMP Capital believes this is the fairest way to deliver the available liquidity to investors. This position will be reviewed on an ongoing basis. The target asset allocation of 50% traded high yield and 50% private debt has been removed from the Fund.

Asset allocation

%	Current
Private Debt	70.07
Traded High Yield	29.93

Performance – periods to 31 July 2010

%	1 mth	3 mth	6 mth	1 yr	3 yr	incept
Before tax and after fees	-0.78	-2.23	-0.42	2.73	3.77	4.98
Benchmark	0.38	1.14	2.14	3.88	5.06	5.36

*Performance more than 1 year is annualised

Returns are calculated using the unit price which uses the net asset values for the relevant month end. This price may differ from the actual unit price for an individual investor. Actual unit prices will be confirmed following any transaction by an investor. Returns quoted are before tax, after Class 'H' fees and costs, assume all distributions are reinvested and are annualised for periods greater than one year. Also, the returns shown do not include franking credits received from some of the hybrid stocks. Further to our update dated 7 Oct 2009, performance attribution for income and growth components will not be reported while the Fund is currently returning Capital via distributions as this distribution policy results in a distortion of this income and growth component.

Performance and Activity

The AMP Capital Enhanced Yield Fund - Off-platform Class H (the Fund) returned -0.78% (Before tax and after fees) in the month of Jul, compared to the benchmark return of 0.38%

Market and fund commentary

The traded high yield portion of the Fund outperformed over the month of July as credit markets followed the broader positive tone across all markets, with most sectors seeing good spread performance. The performance of the private debt portion of the portfolio, held by the Fund as units in the AMP Capital Structured High Yield Fund (SHY), was negatively impacted by the full write-down of the portfolio's holding in Beston. This asset represented 2.5% of the private debt portfolio.

Sector specific comments

Private debt

In early July, the private debt portion of the portfolio received the full prepayment of Loscam, a total of A\$80 million. This included a prepayment fee on the mezzanine tranche which the private debt team had negotiated when originating and structuring the deal. This prepayment was included in the capital distribution for the July quarter. At this stage, there are no more legal maturities this year, but there may be an early prepayment of one or more of the performing assets over the coming months as market liquidity slowly returns.

The private debt team in Sydney has been particularly busy in July regarding the Beston asset, where the current refinancing risk brought about a revaluation of the asset to zero early in the month. The SHY team is working with the sponsors, management and an external advisor to either sell the business or recapitalise, and is hopeful that it will be able to realise some value for investors over the month of August. The SHY team also continues to stay close to the Godfrey's restructuring, as a sluggish trading environment has been weakening the headroom above the business' financial covenants. The possible risk of a default in coming quarters and a subsequent amendment to the private debt portfolio's carrying value of the asset are being closely monitored by the SHY team. The private debt team is also beginning work on the restructuring of the Air-Serv asset, one of the SHY portfolio's US investments. The legal maturity of the senior debt is mid-2011, and the company needs time and free cash flow to continue its recovery from the effects of the global financial crisis in order to reduce leverage for a refinancing or a sale to be achieved.

The private debt team in London continues to work with the sponsors and other lenders to the East London Bus Group to work towards the best possible outcome for investors. Given the changing nature of the industry in which it operates following the global financial crisis, the revenues of the business have been severely affected. This may affect the portfolio's holding value of the asset in time. The SHY team is also continuing to drive negotiations on the European Directories asset in order to realise value for investors as this asset was written down to zero earlier in the year. The private debt team will keep investors abreast of both situations as more information comes to light. The SHY team continues to closely monitor all European assets, in particular Zenith and

Alimak Hek. While performance is being maintained, these assets remain fragile in the face of a slowly improving economic climate.

Traded high yield

A large number of headwinds that were affecting sentiment in risky asset markets in May and early June were reduced during the month of July. The European bank stress tests were watered down and the Basel III global banking regulations were relaxed. The month also saw a solid start to US and European reporting seasons and US President Obama signed the US Financial Regulation Dodd-Frank bill. Equity markets staged a sharp rally, with European equity markets posting the second best July on record since 1970, with significant outperformance from the financial sector. Commodity markets also had a very solid month across the board. However, while many headwinds subsided, others emerged. US macroeconomic data has levelled out and in some cases started to marginally roll over, namely US housing market data, consumer confidence and Institute for Supply Management manufacturing. During the month, there were also some concerns regarding the underlying strength of China. The micro data from reporting season, bottom-line and top-line growth, as well as company guidance and more positive outlooks has supported underlying strength and kept sentiment positive. Tailwinds, such as strong technicals (i.e. increased mutual fund flows into high grade global credit, the build up of coupons and large redemptions as well as low net issuance) and attractive credit spread valuations have ensured that investors are very comfortable and ready to put money to work whenever markets sell off.

Global credit rallied strongly over the month, with clear outperformance from the financial and sovereign sector, namely subordinated debt. Cyclical and higher-beta sectors also did particularly well. Lower investment grade credit also generally outperformed higher grade non-financial issues. The financial sector in global credit was supported strongly in the lead up to the European bank stress test results, and then after the Bank for International Settlements' announcement of a relaxation to Basel III regulation. Changes to the net stable funding ratios and leverage as well as longer transition times indicate less pressure on immediate near-term funding pressures and difficulties in complying. Further updates due in the September and December quarters will see greater clarity on bank capital and specific adoptions by local regulators, such as the Australian Prudential Regulation Authority. Locally, continuing on from the ousting of former Australian Prime Minister Kevin Rudd, we saw a further announcement of an agreement to replace the controversial Resource Super Profits Tax with the Mineral Resource Rent Tax.

The portfolio outperformed its benchmark over July. The higher-beta subordinated financials sector was the best performer, contributing to the bulk of the month's strong result. The top contributor to performance in July was via Tier 1 exposure to ANZ which had been a consistent underperformer over the recent months of heightened spread volatility. As systemic concerns ease, the subordinated and Tier 1 exposures within the portfolio have benefited accordingly. Other performers in this sector over the month included Swiss Re and AXA. The global hybrid allocations within the portfolio also performed well, with Siemens and Lottomattica the standout performers. Performance from

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ASX-listed hybrids was mixed, with positive returns to Southern Cross offset by underperformance from Nufarm.

Outlook

In terms of the SHY units held in the Fund, as we enter the second half of 2010 and a new financial year, the private debt team is looking for signs of continued economic recovery in many of the SHY portfolio companies. As markets improve, most restructurings undertaken over the last two years have lead to positive results for the companies in question. The hope is that this will continue for the private debt portfolio. However, there is ongoing weakness in some geographies, particularly in Europe, and the SHY team is particularly attentive to assets with exposure to these areas.

In terms of the traded high yield portion of the Fund, sentiment dramatically improved in July after a number of headwinds were watered down or removed from financial markets. Naturally, risky assets were once again the focus, and volatility subsided. We expect that medium-term volatility will remain in place and that markets may overshoot in coming months on strong momentum. Earnings season and the holiday period will keep investors alert in the interim. Valuations are still cheap in credit, while underlying corporate balance sheet fundamentals remain strong. The market volatility and risk aversion in May and June highlighted that stimulus measures may remain in place a little longer than anticipated. However, a slowdown in global growth is not of itself a concern for credit investors, given the healthy state of corporate balance sheets in general.

We have previously highlighted technical and fundamental pressures which have served to increase the focus on sovereign indebtedness, particularly within the Euro-zone, and the large volume of sovereign debt yet to be issued this year. We believe that public sector releveraging in the wake of the financial crisis is a dynamic that investors will need to watch closely over the coming months – the inevitable result of private to public financing shifts. July was a very important month for sovereign and financial issuers in the Euro-zone and broader regions, as we saw a reopening of capital markets and therefore more attractive and sustainable funding costs.

During and after the global financial crisis, global corporate treasurers have taken positive steps to repair their balance sheets via debt and equity issuance, and have implemented cost-cutting initiatives in order to improve productivity. Recent company earnings reports, with a particular focus on the solid results from both the US and Europe, have highlighted that improvements to profitability and overall credit metrics have been primarily through cost-cutting and conservative balance sheet behaviours. While the first and second quarter reports showed some evidence of 'top-line' growth in sales and revenues across the board, an improvement in economic stability is likely to be required before significant and sustainable gains through revenues will be seen.

Technical factors (particularly in the US) from mutual fund flows into bonds, large coupon and maturity flows, significant issuance and refinancing and liability extensions are all still very favourable at the investment grade (ex-financials) end of the spectrum. Company balance sheets also remain very clean and highly supportive for investment grade credit investors. However, we remain more interested in assessing the potential impacts to longer-term global growth as fiscal

austerity takes hold in the Euro-zone. One thing is certain, though, and that is that volatility will remain at more elevated levels in the medium term.

Top 10 holdings – as at 31 Jul 2010

Security Details	% Portf
Godfreys	4.45
Macquarie UK Broadcast	4.19
Air-Serv	3.48
Thames Water	3.42
Maher Ports	3.25
NZ Poultry	3.21
Xtralis (Vision Group)	2.97
Southern Water	2.91
Westpac Banking Corp	2.90
Air Port Development	2.56

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