

7 October 2009

AMP Capital Enhanced Yield Fund – 12 Month Update

Dear Investor,

Important Changes to the AMP Capital Enhanced Yield Fund ('EYF')

We would like to provide an update to investors on the following important changes that have been made to EYF since the last update:

1. Due to EYF's liquidity position, the current quarterly pro rata withdrawal windows will be replaced by 'special distributions' of both capital and income;
2. The target asset allocation of 50% traded high yield and 50% private debt will be removed from EYF from 19 October 2009; and
3. EYF will pay a special distribution to investors of approximately 10% of the Fund, representing around 10 cents per EYF unit held, on 31 October 2009.

More information on the reasons behind making these changes are provided below.

The last 12 months

As set out in the EYF Product Disclosure Statement, the aim of EYF has been to give investors access to high income investments through EYF's investment in a strategic mix of traded high yield securities and private debt investments, while seeking to provide capital stability and maintain EYF's liquidity. Access to high income with lower volatility than traditional high income investments was sought through EYF's diverse asset allocation, targeting approximately:

- 50% to traded high yield securities; and
- 50% to private debt investments (held as units in the Structured High Yield Fund).

Investment markets in equity, traded high yield and comparable assets to private debt fell significantly in 2008 and continued to remain volatile in 2009. The prolonged downturn affected many sectors, which experienced a substantial decline and continued to be affected by weak economic data, global deleveraging and ongoing credit market turmoil. In these market conditions, EYF received higher than usual requests for withdrawals, not matched by fresh investment.

The combination of market conditions, high withdrawal requests and changes to the Structured High Yield Fund's payment terms resulted in the asset allocation of EYF moving beyond its targeted 50% allocation to private debt.

At that time AMP Capital took the following steps to manage EYF's liquidity position during the prolonged market turmoil:

- **10 October 2008:** as redemption levels increased, we extended the period of payment for withdrawal requests from 10 business days to within 12 months to effectively match the expected time it would take to redeem units in the AMP Capital Structured High Yield Fund.
- **2 December 2008:** as market conditions worsened, we replaced the 12 month extension of the payment period with the introduction of quarterly withdrawal processing at specified withdrawal dates, with payment amounts pro-rated in quarters where there was insufficient cash in EYF to fully meet all withdrawal requests.
- **17 February 2009:** to ensure equity was maintained for existing investors given market conditions were not improving in the short term, we closed EYF to new investment and ceased distribution re-investment.

As there were not sufficient available funds to fully meet withdrawal requests at each of the withdrawal windows, EYF paid withdrawals fixed at the following rates for all investors who placed a withdrawal request:

- January 2009 quarter: 4.42%
- April 2009 quarter: 0%
- July 2009 quarter: 0%.

Liquidity in EYF

To date, to ensure that EYF maintained an exposure broadly consistent with its target asset allocation, withdrawal requests have needed to be funded from both the traded high yield and Structured High Yield Fund components of EYF.

The asset allocation in EYF was approximately 42% traded high yield and 58% Structured High Yield Fund as at 30 September 2009.

Since October 2008, AMP Capital has been actively searching for a solution to increase the liquidity in EYF throughout uncertain and volatile market conditions. In analysing options and considering solutions for the best way forward for investors, we have consulted at length with a range of industry specialist advisers.

EYF has also sought redemptions from the Structured High Yield Fund, however, since quarterly withdrawal windows were put in place for the Structured High Yield Fund in December 2008, the Structured High Yield Fund has only paid a very modest level of withdrawals to its investors.

2009 has been a difficult year for the Structured High Yield Fund with very limited loan prepayments and therefore limited liquidity available in the Structured High Yield Fund's assets.

The income position of the Structured High Yield Fund has also deteriorated as some of its investments have moved to capitalise income rather than pay in cash. While this is a fairly normal occurrence during extreme credit environments, it nevertheless detracts from the cash distributions which EYF expects to receive from the Structured High Yield Fund. Investors should note that the majority of the underlying assets of the Structured High Yield Fund are illiquid debt assets and are valued at par or historical cost (acquisition cost), plus any accrued interest. If there is evidence of a material risk of loss on any debt asset within the Structured High Yield Fund, an independent valuation from an external, appropriately qualified valuer is provided and the value of the debt assets within the Structured High Yield Fund will be adjusted to reflect that valuation.

The maturity profile of the Structured High Yield Fund is such that very few loans reach maturity within the next three years. This is central to why EYF needs to take further steps to generate liquidity rather than wait for maturities from the Structured High Yield Fund.

The three changes to EYF

1. Removal of withdrawal windows

Due to EYF's current liquidity position, EYF has ceased its withdrawal windows. This means that investors will no longer have a right to withdraw, or be able to withdraw, funds by submitting withdrawal requests. Rather, when cash becomes available in EYF it will make pro rata special distributions of capital and income to investors. We believe that this is the fairest way to deliver the available liquidity to investors. This position will be reviewed on an ongoing basis.

If EYF's liquidity position materially changes, the ability to withdraw from EYF may be reinstated. We will notify you if this occurs.

This change in EYF's liquidity results from the Structured High Yield Fund having notified its investors that it has ceased its withdrawal windows and is now making capital distributions.

2. Removal of 50/50 target asset allocation

The 50/50 target asset allocation has not provided the liquidity that it was anticipated to provide, particularly during the global financial crisis. This, together with the limited ability of EYF to pay redemptions over the last 12 months, means that we will remove that target asset allocation from 19 October 2009. This will allow EYF to pay out to investors the approximate 10% cash holding in EYF by way of a special distribution and will also allow for the potential for more special distributions to be paid in the future.

3. Payment of special distributions

Going forward, EYF will pay income and capital to all investors pro rata to the number of EYF units they hold by way of special distributions, as we believe that this is the fairest way to deliver the available liquidity to investors. This position will be reviewed on an ongoing basis.

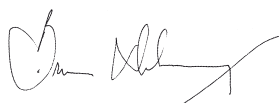
A special distribution of approximately 10% of the Fund, representing around 10 cents per EYF unit held, will be paid to all EYF investors on 31 October 2009, after which time special distributions will replace the current income distributions payable on 31 December, 31 March, 30 June, and 30 September each year.

The amount of each special distribution may vary, or no special distribution may be payable in a quarter.

Contact details

AMP Capital remains committed to acting in the best interests of investors in the Fund. As we continue to actively manage the Fund we will provide further updates on any changes. We thank you for your ongoing support. If you have any questions about the Fund please contact your financial adviser or our Client Services Team on 1800 188 013, between 8.30am and 5.30pm (Sydney time) Monday to Friday.

Yours sincerely,



Brian Delaney
Business Director, Client Product and Marketing
AMP Capital Investors

Contact us

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