

7 October 2009



AMP Capital Structured High Yield Fund – 12 Month Update

Dear Investor,

As you are aware, changes were made to the withdrawal provisions of the AMP Capital Structured High Yield Fund (the 'Fund') approximately 12 months ago to protect the interests of investors as a result of the global financial crisis. The purpose of this note is to provide an update to investors in the Fund covering:

- A move to the payment of pro rata quarterly capital distributions;
- The steps being taken to manage the Fund's overall position and protect the value of the assets of the Fund;
- The current financial challenges to the Fund - including hedging, debt, income distribution levels, capitalising interest on debts owed to the Fund, and our response to managing these challenges;
- An overview of the Fund's liquidity;
- Investment challenges for Fund assets; and
- The outlook for the Fund.

The AMP Capital Structured High Yield Fund generally invests in a diversified portfolio of high-yielding subordinated debt assets in countries around the world. Investments are spread across a range of industry sectors with a borrower under a typical investment having either a natural monopoly or strong industry position. Investment opportunities include infrastructure assets, leveraged and management buyouts.

As investors know, the collapse of Lehman Brothers in September last year triggered a significant decline in most markets and heightened currency volatility. At the same time, the level of finance available to companies contracted significantly. Against this backdrop, the Fund entered a difficult trading environment which resulted in the amount of requests for redemptions exceeding applications, reduced liquidity as a result of reduced pre-payments of debts owed to the Fund and deteriorated business conditions for the companies in whose debt the Fund is invested. These conditions have led to an increased number of capital restructures in the market. Wide fluctuations in the value of the Australian dollar (A\$) against other leading currencies have also resulted in significant income volatility for the Fund and its investors.

Managing the Fund's overall position

A number of steps have been taken by AMP Capital Investors ('AMP Capital' or 'we') which are designed to manage the Fund's overall position throughout this prolonged market turmoil. These include:

- **10 October 2008:** As redemption levels increased, AMP Capital reverted from the previous practice of meeting daily redemption requests, to the position under the Fund's constitution which required it to use reasonable endeavours to meet redemption request within 12 months of receiving the request.
- **November 2008:** As market conditions worsened, we determined to amend the Fund's constitution to introduce quarterly withdrawal processing at specified withdrawal dates, with payment amounts pro-rated to reflect the amount of cash in the Fund available to meet withdrawal requests. The quarterly withdrawal arrangements were described in the Fund's supplementary Product Disclosure Statement dated 28 November 2008.

Important note: Investors should consider the Product Disclosure Statement available from AMP Capital Investors Limited ABN 59 001 777 591 AFSL 232497 (AMP Capital) for the AMP Capital Structured High Yield Fund (Fund) before making any decision regarding the Fund. Investors should read the PDS before making any decision whether to continue to hold or dispose of units in the Fund. Neither AMP Capital, nor any other company in the AMP Group guarantees the repayment of capital or the performance of any product or any particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance. While every care has been taken in the preparation of this document, AMP Capital makes no representation or warranty as to the accuracy or completeness of any statement in it including, without limitation, any forecasts. This document has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. An investor should, before making any investment decision, consider the appropriateness of the information in this document, and seek professional advice having regard to the investor's objectives, financial situation and needs. AMP Capital is the responsible entity of the Fund and the issuer of the PDS for the Fund. This document is solely for the use of the person to whom it is provided.

- **16 February 2009:** To ensure equity was maintained for existing investors given market conditions were not improving in the short term, we closed the Fund to new and additional investments, and reinvestments of distributions from the Fund ceased to be available.

Since the introduction of the specified withdrawal dates described above, there has not been sufficient cash available to fully meet all withdrawal requests. As a result, the Fund has only satisfied a small number of withdrawal requests over the past three quarters. Withdrawal requests were satisfied in the following proportions:

- January 2009 quarter: 1.66%
- April 2009 quarter: 0.00%
- July 2009 quarter: 0.00%

Capital distributions

As described above, since November 2008 the Fund has paid out capital to meet withdrawals at specified withdrawal dates. The quarterly withdrawal process is no longer available to the Fund (as the Fund is illiquid under the Corporations Act). While the Fund could still make withdrawal offers under the Corporations Act in a manner similar to the previous quarterly withdrawal arrangements, we do not intend to adopt this approach. Instead, we intend to make quarterly capital distributions to all investors pro rata based on the net asset value of their unitholding.

The amount of each quarterly distribution will be the amount of available cash in the Fund, subject to (among other things) making provision for the Fund's current and anticipated liabilities, including liabilities under the Fund's hedging arrangements. We intend to advise investors prior to each payment date of the size of the distribution (if any). We intend that distributions will be made on the same dates as payments under the previous quarterly withdrawal windows framework.

We believe that this is the fairest method of providing some liquidity to investors in the current climate of reduced prepayments of debts and increased restructuring within some of the Fund's assets. At this time we are unable to determine with any certainty the Fund's ability to make distributions every quarter and in the short term only a modest amount of capital is expected to be available to investors. We will continue to monitor the Fund to determine whether at any stage in the future we will make withdrawal offers.

Fund challenges and responses

Hedging

The Fund aims to fully hedge currency exposure from non A\$ denominated assets. The currency exposure hedged covers both the principal and interest payments from these loans and is implemented through the use of forward currency swaps. The Fund's aims in currency hedging are to:

- Provide protection for asset values in the event of the A\$ rising;
- Increase the stability of the Fund's net asset value; and
- Protect the returns generated on foreign currency denominated investments in A\$ terms.

During the period from July to October 2008, the A\$ fell sharply against other key currencies, notably the US dollar, Sterling and Euro. The A\$ value of assets held in these currencies improved (capital gain for the Fund) but these gains were offset by currency hedge contract losses (income losses for the Fund). When these contracts matured they had to be cash settled and the settlements crystallised an income loss for the Fund which significantly constrained its ability to pay income distributions to its investors. Please note the Fund's actual return was unaffected, rather the currency issues effectively transferred a portion of the Fund's return from its income account to its capital account.

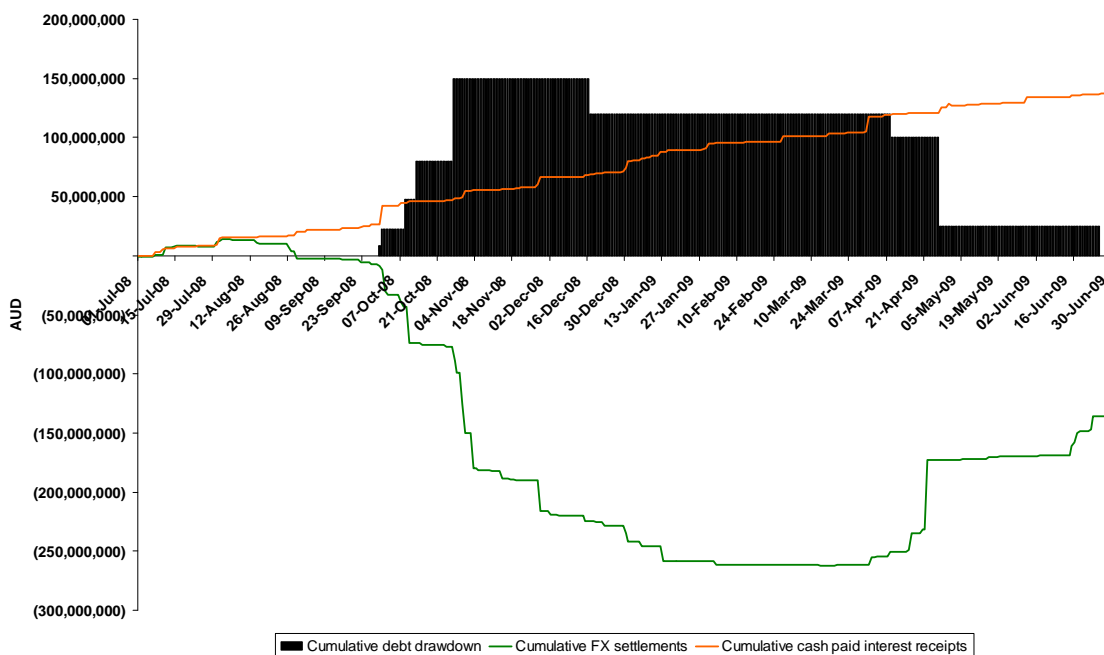
As a consequence of the sharp fall in A\$ exchange rates, the cash settlement required to cover the Fund's currency hedges outstanding in early October was approximately A\$250 million. In response to this significant drain on the Fund's liquidity position, the manager of the Fund took a number of key actions, designed to preserve the stability of the Fund and to ensure currency hedging could be maintained. These actions included:

- Closing out existing key currency hedges and re-setting these hedges for longer-dated maturities. Key hedges were closed out in October 2008 and re-set in two batches maturing in April and June 2009. The re-setting of hedges enabled more income receipts to be received before further payment obligations were incurred;
- Borrowing A\$150 million to settle currency contracts;
- Not paying any September quarter income distribution – to help meet currency hedging settlement costs;
- Making a small income distribution in the December quarter 2008 and March quarter 2009 – retaining the majority of Fund income to meet currency hedging settlement obligations; and

- Closing out the key currency hedges, that were due to mature in April and June 2009, in April 2009 and re-setting these to mature in March 2010 to capture income from the rising A\$ up to that point. This action resulted in the receipt of approximately A\$100 million in income for the Fund. Closing out these hedges at this time ensured that income losses incurred during the 2008/09 financial year were recouped within the financial year and that currency related debt accumulated over the financial year was repaid within the 2008/09 financial year.

Despite the significant strain on cash flow caused by currency hedging across July to October 2008, the Manager continues to believe currency hedging adds considerable value to the Fund through contributing to capital stability. The Fund has maintained full hedging of principal and interest across the 2008/09 financial year and remains fully hedged. Maintaining currency protection after the sharp A\$ falls has been highly beneficial to the value of Fund units as the A\$ has rallied strongly against major currencies since October 2008. The current currency hedges are cash positive by over A\$150 million as at 31 August 2009.

The following cash flow graph shows receipts and outgoings of cash for the Fund for the 2008/09 financial year, specifically for cash paid income and foreign exchange (FX) income gains/losses as well as showing the FX settlement associated debt levels.



Debt

From September 2008, the fall in the A\$ accelerated to the point where the cash cost of settling the hedges for the Fund significantly exceeded the income from assets. As a result of the need to cover hedging contract settlements of A\$250 million, the Fund utilised its borrowing facility with Westpac to bridge the difference between the interest receipts and the amounts required to settle the Fund's hedges as they rolled. In addition to preserving Fund income and pushing out the dates for settlements of key hedges, the Fund borrowed A\$150 million to fund these income losses.

Over the course of the 2008/09 financial year, the Fund applied income received from the assets and cash proceeds from later currency hedging contract settlements to pay down this debt. As at 30 June 2009 the Fund had fully repaid the \$150 million borrowed to settle currency hedging contracts.

In addition to currency-related debt, the Fund had outstanding borrowings of A\$140 million which had been used to make new investments in subordinated debt assets. This borrowing was intended as 'bridge' funding to assist in the purchasing of new assets, with the aim to repay this debt through cash flows from new investors and pre-payment of assets. The sharp deterioration in financial market conditions post the Lehman collapse saw inflows reduce significantly and pre-payments slow to well below historic norms. Partial repayment of this debt has been achieved through allocating money from the pre-payment of MGN Gas. This debt has been reduced to A\$95 million.

As at 31 August 2009, total debt for the Fund stands at A\$95 million, which represents approximately 4.8% of Fund assets.

Income distribution levels

The impact of currency hedging led to significantly reduced income distributions across the 2008/09 financial year.

The currency impact of lower income distributions in 2008/09 is in contrast with the previous two financial years to 30 June 2008 where currency hedging led to increased income distributions as set out below:

Structured High Yield Fund, Class A returns – post fees

| | 1 Year to 30 June 2008 | 1 Year to 30 June 2007 |
|--------|------------------------|------------------------|
| Income | 15.20% | 12.60% |
| Growth | -3.42% | -2.97% |
| Total | 11.78% | 9.63% |

The Fund remains fully hedged (as close as possible) which has helped its income position as the A\$ has appreciated over 2009 to date. Income distributions for the next financial year are expected to reflect cash income earned from the Fund's assets. Current currency hedging contracts are significantly 'in the money' which aids confidence in the Fund's ability to pass through cash income from assets and provides the potential for an additional cash distribution this financial year.

Capitalising interest

A number of loans in which the Fund invests pay a higher rate of interest to compensate for the additional risk associated with the ability of the borrower to capitalise interest. Capitalising interest is a common feature of subordinated lending, especially in the funding of leveraged buyout transactions. Otherwise known as payment in kind or 'PIK' interest, capitalised interest is added to the loan principal outstanding. Where PIK income is part of the payment profile on making an investment, typically the payment profile will display a combination of cash pay and capitalising margin. This capitalised interest income of the Fund is generally taxable income for investors but the Fund does not receive the cash.

PIK income as a component of the Fund's income has risen over the 2008/09 financial year and through the start of this financial year. The fall in the official cash rate, from 7.25% at 2 September 2008 to 3% at 31 August 2009, has been reflected in the fall in the 90-Day Bank Bill rate. The fall in the key cash reference rate used by the Fund has been the main contributor to PIK income increasing as a percentage of total income. This is because the assets of the Fund are predominantly floating rate, so when cash rates fall so too does the income paid to the Fund from its assets. In addition, companies electing to pay a higher rate of interest in return for capitalising some or all of their interest obligations have also increased the amount of PIK income. In many cases this election has been part of a capital restructuring to enhance a company's ability to trade through difficult economic circumstances.

The increase in PIK income is set out below:

| Percentage of NAV | 30 June 2008 | 30 June 2009 | Current |
|-------------------|--------------|--------------|---------|
| PIK | 1.94% | 2.18% | 2.58% |
| Total Income | 10.19% | 7.98% | 8.14% |
| PIK % of Income | 16% | 27% | 32% |

Historically, the Fund's PIK income has been paid out in the year it was earned using cash proceeds from pre-payments and net inflows (ie where applications for units exceed redemptions of units). With PIK income having increased as a percentage of total income, it is no longer appropriate to pay out PIK income as the Fund does not have access to the cash required to cash fund this capitalising interest.

The policy of the Fund going forward will be to capitalise PIK interest and not pay this out to investors as cash-backed income. Bonus units will be issued at 30 June each year for the amount of net PIK income distributed. In normal circumstances this distribution process will lead to reduced distributable cash income. This PIK income will generally be taxable in the hands of investors.

Use of loan pre-payments and repayments

Funds available to pay capital distributions going forward are expected to come largely from the pre-payment or re-payment of loans, with continuing to pay down debt the key competing call on these funds. As we look forward to the remainder of 2009, there are two further pre-payments of fund assets in active negotiation. The ability to continue to negotiate pre-payments reflects some modest improvement in market liquidity for subordinated debt lending and the extent to which this liquidity returns over the year ahead will impact the level of pre-payments achieved. The Fund will continue to use pre-payments to prudently pay down debt and the balance to make pro rata cash distributions to all investors as described above.

In the short term, we do not intend to re-invest cash received by the Fund. Changes to this strategy would be advised to investors. The cash that the Fund receives will generally either be distributed to unitholders pro rata as described above, or retained to cover the Fund's expenses.

Investment challenges

We are actively managing the Fund through a difficult market environment, and are working to add value on an asset by asset basis as companies trade through tough conditions. The active management of assets to forecast and overcome a downturn for a company is vitally important to ensure the best possible outcome for subordinated debt holders. Our in-depth analysis of companies, both quantitative and qualitative, and our major role in the lending and structuring of subordinated debt helps provide an ideal position to proactively monitor and manage these outcomes. Through our active management, we not only aim to preserve value for the Structured High Yield Fund but create it through increased margins and improved terms.

With the deterioration in the global economic environment over the last twelve months, companies around the world have been under increasing financial stress, and few industries have been immune from its effects. We expect the difficult trading times to continue over the coming six months or so, with many companies with European and US exposure in particular feeling the effects of the slump in demand. We continue to see a lot of activity around capital restructurings to alleviate financial pressures on businesses. Risks are present for portfolio assets across these restructures, where in some cases additional equity may not be forthcoming, and attempts to achieve a capital restructure may lead to a write-down of holding values for the equity and debt owners.

To date, some of the Fund's assets have already undergone a series of capital restructures. A number of these, including Maher Ports, Independent Liquor, Mauser, and Materis, have involved additional equity contributions which reflects the continued value equity investors see in these businesses. In other cases, including Godfrey's, capital restructures have not attracted additional equity but rather have seen a relaxation of covenant tests, and/or a capitalisation of part or all junior debt interest, to provide breathing room for the firm to trade through to more normal market conditions.

The Fund's valuation policy requires an external valuation where there is an actual or forecast event of senior bank default. Two assets have moved to requiring an external valuation.

First Engineering (representing approximately 1% of the Fund's assets), a specialist electronics component manufacturer based in Singapore, is currently in default and is not meeting its interest payment obligations. This asset has been externally valued by KPMG and its holding value has been written down by US\$4.2 million to US\$18.1 million, ie an 18% write-down. First Engineering has been referred back to KPMG for a second valuation following the senior lenders decision to exercise its rights to force a sale of the First Engineering business. A second asset, Paroc (representing approximately 3% of the Fund's assets), a manufacturer of rock wool insulation products for commercial properties throughout Europe, is in default and this asset is with KPMG for valuation.

Targeting sub-investment grade exposures, the Fund has sought to invest in companies with defensive characteristics that are expected to perform across the economic cycle. The characteristics targeted include regulated environments, leading industry positions, high barriers to entry, stable and consistent cash flows and non-cyclical businesses. These defensive characteristics have helped the portfolio through challenging conditions, however not all assets have been immune from the difficult environment. The current tough trading conditions are likely to persist for at least the next 12 months and investee companies will continue to face pressure on cash flows and refinancing.

Fund outlook

The trading environment for investee companies remains difficult and we expect a number of companies will continue to face significant financial pressure over the next 12 months. Market liquidity to facilitate refinancing, and therefore pre-payment and re-payment of Fund assets, will remain tight for at least the next six months, with some potential for liquidity to slowly re-establish after this time. The Fund is working actively on two refinancings that are expected to result in pre-payments of assets back to the Fund. As a result of this activity, some distribution of capital is expected to be made to investors in the short-term.

Distributable income is expected to be paid to investors this quarter as currently, currency hedges are in the money and there is the potential for settlement of these hedge contracts to provide an additional source of income to distribute to investors.

AMP Capital understands how challenging these markets are for investors. We are committed to acting in the best interests of unitholders at all times. We thank you for your on-going support in this difficult market environment. If you have any questions about the Fund please contact your Business Development Manager or Client Services on 1800 658 404.

Yours sincerely,



Brian Delaney
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AMP Capital Investors