

## Client communication

1 OCTOBER 2013



### AMP Capital Enhanced Yield Fund - Valuation update for Zodiac subordinated debt

We are writing to provide an update on the latest valuation of a private debt investment of the AMP Capital Structured High Yield Fund (SHY), in which AMP Capital Enhanced Yield Fund (EYF) has an investment representing approximately 94% of the value of EYF's total portfolio.

SHY's investments in debt securities issued by Zodiac Marine (Zodiac) have recently been independently valued by KPMG, in line with SHY's valuation policy. For the valuation to June 2013, KPMG has taken a straight line projection of revenues and EBITDA, questioning Zodiac management's expectation of a seasonal uplift in the fourth quarter of the financial year, i.e. the northern hemisphere summer months. This has resulted in a significant reduction in KPMG's valuation of SHY's Zodiac investment compared with previous valuations of these assets.

#### Revised valuation

The revised valuations for SHY's Zodiac investments determined by KPMG are:

Second lien: US\$1,895,294, down from US\$9,063,431.

Mezzanine: US\$578,059, down from US\$2,652,368.

This represents a total reduction in value of SHY's Zodiac investments of US\$9,242,446, representing an approximate 1.85% reduction in the value of the SHY portfolio and consequently a 1.72% reduction in the value of EYF's portfolio.

#### Background to Zodiac's performance

Zodiac is a global business whose key territories are the US, Europe and Australia. Zodiac's business activity is the development and manufacture of branded swimming pool equipment, with the majority of revenues coming from after-market products (i.e. after the pool has been built).

As previously communicated, Zodiac continues to trade poorly, particularly as a result of weak European markets. Its US business has recently seen a good improvement and is trading on budget. Australia has been weaker as the economy has slowed. The KPMG valuation is based on a 2014 exit date as this is Zodiac's best estimate for when there would be a sale or refinancing of the business – this approach is in line with SHY's valuation policy. Zodiac is currently seeking to amend and extend its debt facilities, although given Zodiac's existing leverage we believe this will be difficult to achieve.

KPMG will continue to revalue the Zodiac investments at six monthly intervals going forward in accordance with SHY's valuation policy and we will keep investors informed of any significant positive or negative changes to the valuation of the Zodiac investments.

## Outlook for EYF and the SHY portfolio

EYF typically invests in high yield securities which by their nature carry more risk than other types of fixed income securities. Future performance will be heavily influenced by the potential for future defaults as the remaining securities have a higher level of risk.

The SHY portfolio continues to be closely monitored and the private debt team remains up to date with developments in Europe in particular. The current global uncertainty may affect the ability of the private debt portfolio's companies to meet budgets, although SHY has advised that at this stage it is not expecting any of the assets within the portfolio to breach financial covenants. This position needs to be regularly reviewed as individual companies deal with the uncertain global economic environment.

## Further information

If you have any questions about this update or have any questions about your AMP Capital investments, please contact your Account Manager or our Client Services Team on 1800 658 404, between 8.30am and 5.30pm (Sydney time) Monday to Friday.

Yours sincerely,



Craig Keary  
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