

RNS Euro. Eq Tranche Inc EET Investment Update
Jan 11 2007 7:01

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European Equity Tranche Income Ltd.
11 January 2007

For immediate release on 11 January 2007

European Equity Tranche Income Limited ("EETI" or the "Company")

Investment Update

Summary

- Euro 108 million invested in 11 investments across 6 countries
- High quality investment portfolio - 92% of gross assets in prime RMBS investments
- Internal rate of return on current investments in excess of 10%
- Based on expected dividend for the quarter ending 31 March 2007, annualised dividends will exceed Eur 0.08 per share
- In discussions with bank lenders to provide leverage to enable EETI to move towards higher dividend levels in subsequent financial periods
- Ocean Capital Associates LLP, the Company`s investment manager, continues to evaluate opportunities and is confident of a strong pipeline of future investments

Robin Monro-Davies, Chairman of EETI, said:

"In the nine months we have been in existence we have made substantial progress. We have built up a diversified portfolio which is performing well, and we are advanced in arranging further funding. The area we operate in is highly specialised and we believe that the expertise provided by our fund managers together with careful oversight by the board provides the opportunity to continue to enhance shareholder returns."

Investment Update

EETI is pleased to announce that it has now completed the first stage of its investment programme, which was to use the proceeds of its capital raising in April 2006 (Euro 98 million) to purchase Residential Mortgage Backed Securities

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("RMBS") and a limited amount of non RMBS, issued in Europe.

As at 31 December 2006, the Company had made eleven investments for a total sum of Euros 108 million. These investments are spread across six countries, five in continental Europe (Italy, Netherlands, Portugal, France and Austria) and one in the UK. Ten of these investments were made in RMBS assets, which are all prime and represent 92% of current gross assets. The company has bought one non RMBS asset, an Austrian auto loan bond, which currently makes up 8% of gross assets.

Modelled internal rates of return for our various investments indicate a blended overall internal rate of return in excess of 10% on our current portfolio. Furthermore, based on the expected dividend for the quarter ending 31 March 2007, annualised dividends will exceed Eur 0.08 per share. The internal rates of return reflect the high quality of the investment portfolio and a decision by the Company's investment manager, at present, not to invest in higher yielding non-prime opportunities. Consequently, while the annualised dividends per share based on the current quarter exceed Eur 0.08, the total dividends per share for the year ending 30 June 2007 are now expected to be marginally below the Eur 0.08 target at the time of the launch of the Company.

EETI expects to announce the next quarterly dividend in relation to the quarter ended 31 December 2006 by 19 January 2007.

EETI is now negotiating with potential bank lenders to provide it with the leverage which will enable EETI to move towards its targeted dividend rate of Euro 0.12 per share in subsequent financial periods. The Company has already arranged short term financing with Citibank of Euro 40 million and discussions on increasing this amount to Euro 100 million are in progress. Whilst we are building up our investment base it is necessary that we have a limited reliance on short term funding, however it is the board's policy to ensure that, over time, our borrowing is matched to our average asset maturity.

Enquiries:

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The Company

European Equity Tranche Income Limited is a closed-ended investment company incorporated in Guernsey. Its investment objective is to deliver stable returns to shareholders in the form of quarterly dividends and to preserve capital. It

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intends to achieve its investment objective by investing in both non-investment grade and equity tranches of residential mortgage backed securities (RMBS) and, to a limited extent, in the equity tranches of corporate asset backed securities (ABS) in Continental Europe and the UK. The equity tranches of the securities will, in most cases, be rated below investment grade or unrated and will, in many cases, represent the residual income typically retained by the originator of a securitisation transaction as the `equity tranche` or `first loss position`. The Company`s strategy is to buy and hold its investments to maturity and it does not factor in trading opportunities when assessing the potential returns of an investment.

The statements in relation expected or target dividend levels are based on certain assumptions as to future events which may not prove to be realised. Due to the uncertainty surrounding these future events the expected levels or targets are not intended to be and should not be regarded as profits or earnings forecasts. Accordingly, there can be no assurance or guarantee that the expected or target dividends will be realised.

END OF ANNOUNCEMENT

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