

RNS Euro. Eq Tranche Inc EET State. re Investment Update
Jul 13 2007 7:00

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European Equity Tranche Income Ltd.
13 July 2007

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

Investment Update

The Board of EETI has noted the current turmoil in certain areas of the structured finance market, and the RMBS markets in particular, and is providing an update on the Company's progress following the Company's financial year end of 30 June 2007. In summary:

- * The Company has a strong portfolio
- * EETI has no involvement with the US market
- * It does not hold any investments in the sub-prime markets
- * The Board expects to declare a maintained dividend, in the absence of unforeseen circumstances, of Eur 0.02 for the quarter ended 30 June 2007

Since inception Ocean Capital Associates LLP, EETI's Investment Manager, has assembled a high quality portfolio of RMBS by focusing its efforts on transactions originated by continental banks who are experienced mortgage lenders and who use securitisation to manage their regulatory capital base as well as a funding tool.

The investment philosophy of EETI focuses on the objective of delivering stable returns and preserving capital and seeks to achieve this through investment in:

- * Only prime or high grade assets
- * Only European assets
- * No sub-prime or non-conforming transactions
- * No arbitrage or managed transactions

All transactions have been, and will be, entered into after extensive modelling exercises and due diligence performed on the asset and the originators. The time pressure to ramp up the portfolio has not led to a compromise on the quality of the asset purchased

The investments held are backed by collateral showing strong historical performances, good seasoning and satisfactory loan to value statistics. To date, the Company's portfolio has been performing in line with the Investment Manager's model predictions and the board is confident that EETI has built up a high quality portfolio in accordance with its investment objective and policy.

Our cautious approach to the market is also reflected in the terms of our debt financing package provided by Citigroup. Our short term financing is not dependent on mark-to-market variations, and is supported by longer commitment from Citigroup that reduces our liquidity risk.

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EETI announced in May 2007 that the Italian government had proposed new legislation, some of which had been applied retrospectively, that significantly reduced prepayment charges on mortgages. At that time, it was estimated by the Company's Investment Manager that, unless the legislation was changed, the proposals would result in a reduction of between Eur 2.8 million and Eur 4.0 million to the aggregate book value of the Company's Italian investments. The Company has made vigorous appeals to the Italian authorities but sadly to no effect. However, it is now estimated that the loss because of these changes will be slightly below the lowest estimate and is expected to be Eur 2.7 million to be taken as an exceptional charge to the results for the quarter ended 30 June 2007. EETI has no other direct exposures to prepayment penalties in continental Europe.

Since the Company's last announcement on 4 May 2007 when the total portfolio cost stood at Eur 108 million a further 6 investments have been acquired, including two assets in Germany and Eur 20 million of second loss tranches of prime and seasoned Spanish RMBS. At 30 June 2007 the Company had invested a total of approximately Eur 137 million (prior to capital repayments and the Italian provision referred to above).

The current portfolio split by country is as follows:

Country	% of portfolio
Italy	32%
Portugal	21%
Spain	15%
Netherlands	9%
Germany	8%
Austria	6%
UK	6%
France	3%
Total	100%

A more detailed breakdown of the investment portfolio will be set out in EETI's annual report and accounts.

In May 2007 the Company paid an interim dividend of Eur 0.02 per share in respect of the third quarter ended 31 March 2007. In the absence of unforeseen circumstances, the Board expects to declare a dividend for the quarter ended 30 June 2007 also of Eur 0.02 per share. Since the increase in the Company's assets occurred near the end of the financial year, it did not materially affect EETI's earnings for the year ended 30 June 2007. These investments are expected to contribute to earnings in the current financial year and beyond, in line with the Company's target of restoring its net asset value to Eur 1.00 per share, as set out in the Company's 4 May 2007 announcement, whilst continuing to pay a quarterly dividend of Eur 0.02 per share.

EETI is currently looking at a number of investments and continues to seek and find equity or subordinated tranches of RMBS which have the credit quality and yields that meet its investment objectives. Such investments will further increase its assets and associated contribution to earnings thereby providing the Company with the capability to target an increase in its dividend when the net asset value of Eur 1.00 per share has been achieved. When EETI was set up there was always a question as to whether it could source sufficient assets.

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Now, after just over one year in operation, the Company has assembled a strong portfolio and the Board is confident that it can continue to find further quality investments in the months ahead.

The Company expects to announce its preliminary results for the year ended 30 June 2007 in September.

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