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

INVESTMENT UPDATE

Introduction

Ahead of the end of the Company's half year, the Investment Manager is providing an update on the portfolio of the Company and the individual performance of the positions. Overall, the performance of the assets held by EETI and the associated cash generation remains broadly in line with expectations. The Company continues to target the payment of a quarterly dividend of Eur 0.02 per share.

Market Overview

The shift in risk perception of US Subprime mortgages and continued negative newsflow have triggered a continued lack of confidence in credit markets globally and reinforced concerns about the asset quality of the banking sector as a whole. This uncertainty is leading to reduced liquidity in credit markets, with macro-economic implications in OECD countries that are unknown.

While European ABS collateral and notably the prime RMBS sector have continued to perform strongly, the securitisation market remains difficult for new issues, with few new transactions pricing. European RMBS securitisation issuance dropped in the third quarter to Eur 52.6 billion compared to Eur 77.8 billion in the second quarter and Eur 58 billion a year ago; even at that level, it is unclear what proportion of new issues have actually been placed with investors. Markets have been virtually shut since September as it is impossible, or very expensive, to issue AAA rated RMBS.

Secondary market liquidity remains low for rated bonds and we are not aware of any secondary trades in the European RMBS residuals to date. A limited number of secondary equity pieces of prime Continental European securitisations are currently being offered by issuers, and the Investment Manager is working on selected opportunities.

Portfolio Highlights

Only one additional investment for an amount of EUR 3.3m has been entered into since the last portfolio update on 31st July 2007. As of today, the investment portfolio comprises 16 positions:

- 14 investments in Continental European prime residential mortgage backed securities (RMBS)
- 1 investment in a German granular multi-family commercial mortgage backed security (CMBS)
- 1 investment in a UK niche prime RMBS

The key highlights of the Company's investment portfolio are broadly unchanged since the latest update and remain as follows:

- Total book value of EUR 130m (EUR 137m at purchase price)
- The current IRR of the portfolio is approximately 10%;
- The current IRR of all assets purchased by the Company is between 9% and 11%, or with regard to floating rate investments a discount margin above 3-month euribor between 4.75% and 6.85%;

- The above IRRs are booked under a base case, loss-adjusted scenario determined by the Investment Manager and reviewed by the auditors of the company;
- Since inception, and up to 11 December 2007, the portfolio has generated a total cash flow of EUR 18.9m million (excluding assets sales). This cash flow is in line with the projections.

Geographical Breakdown

Italy	33.7%
Portugal	21.6%
Spain	17.8%
Netherlands	9.7%
Germany	8.5%
France	3.1%
UK	5.6%
	100.0%

Underlying Issue	Country	Current rating by SP/F/M	Original Average LTV (1)	Current Portfolio Seasoning (2)	Originator / Servicer	Purchase Date	Underlying Collateral at Origination
Lusitano Mortgages 3 plc Class E Notes	Portugal	NR	73%	5.1 years	Banco Espirito Santo SA	May 2006	Approx. 21,500 first or consecutive lien prime residential mortgages
Lusitano Mortgages 4 plc Class B of Citrine Finance Plc Series 2006	Portugal	NR	74%	4.0 years	Banco Espirito Santo SA	May 2006	Approx. 19,400 first or consecutive lien prime residential mortgages
Lusitano Mortgages 5 plc Class E Notes	Portugal	NR	72%	3.1 years	Banco Espirito Santo SA	Dec 2006	Approx. 22,350 first or consecutive lien prime residential mortgages
Stichting Memphis 2006-1 Class G Notes	Netherlands	NR/B/B2	92% (5)	3.4 years	ING (and/or affiliates)	July 2006	Approx. 18,320 first or consecutive lien prime residential mortgages
Shield 1 BV Class F Notes	Netherlands	B/B/B2	80%	5.4 years	ABN AMRO (and/or Affiliates)	May 2006	Approx. 154,000 first or consecutive lien prime residential mortgages
FCC Minotaure 2004-1 Class R Notes	France	NR	n.a.	2.7 years	Electricite de France (EDF)	May 2006	Approx. 12,350 housing loans to employees of EDF, GDF, RTE or

							GRTGaz
Sestante Finance Srl (Sestante 2) Class C of Citrine Finance plc Series 2006-2	Italy	NR	69%	3.6 years	Meliorbanca SpA (and/or affiliates)	May 2006	Approx. 5,180 first lien prime residential mortgages
Sestante Finance Srl (Sestante 3) Class B of Citrine Finance plc Series 2006-1	Italy	NR	69%	2.9 years	Meliorbanca SpA (and/or affiliates)	May 2006	Approx. 6,850 first lien prime residential mortgages
Sestante Finance Srl (Sestante 4) Class D Notes (3)	Italy	NR	70%	2.0 years	Meliorbanca SpA (and/or affiliates)	Dec 2006	Approx. 4,750 first lien prime residential mortgages
Ludgate Funding plc (Series 2006-FF1) Residual Certificates and Mortgage Early Repayment Certificates	UK	NR	80%	2.0 years	Mortgages plc (an affiliate of Merrill Lynch)	Dec 2006	Approx. 2,750 first lien niche prime residential mortgages
Semper 2006-1 plc (4)	Germany	NR	65%	9.1 years	Eurohypo AG	June 2007	Approx. 647 loans first or second lien multifamily commercial mortgages backing 137,955 flats
IM Pastor 2 (3)	Spain	NR	61%	5.4 years	Banco Pastor SA	June 2007	Approx. 9,776 first lien prime residential mortgages
IM Pastor 3 (3)	Spain	NR	67%	3.4 years	Banco Pastor SA	June 2007	Approx. 8,064 first lien prime residential Mortgages
IM Pastor 4 (3)	Spain	NR	64%	2.4 years	Banco Pastor SA	June 2007	Approx. 6,887 first lien prime residential mortgages
IM Pastor 5	Spain	NR	65%	1.6 years	Banco Pastor SA	August 2007	Approx. 5,958 first lien prime residential mortgages
Provide Gems	Germany	NR/BB-/Ba1	88% (5)	8.4 years	Eurohypo AG	July 2007	Approx. 19,996 second lien prime residential mortgages

Source: Offering circulars, investor presentations and investment manager

Notes:
(1) Original Average LTV is the weighted average loan-to-value ratio of the mortgage pools at issuance of the transactions.
(2) Current Portfolio Seasoning is the estimated weighted average seasoning (or age) of the underlying mortgage pools as of 30 November 2007.
(3) These investments are owned by EETI Finance LTD, an Irish investment vehicle managed by Ocean Capital Associates LLP, the investment manager.
(4) The investment is structured as a credit-linked note with Commerzbank AG.
(5) Note that for Stichting Memphis and Provide Gems the LTV indicated is the current LTV as of the latest available report.

General Comments on the Performance of European and UK RMBS Performance
Credit problems in the US subprime market have not been mirrored in Continental Europe, where the performance of RMBS assets has remained broadly stable in terms of arrears and defaults. This also applies to the positions owned by the Company as described in greater detail below.

The two countries which, in the opinion of market participants, are most vulnerable to a deterioration in the performance of mortgage collateral and a correction in real estate prices are the UK and Spain. While the Investment Manager shares that general view, it believes that mortgages extended to non-conforming borrowers and/or mortgages with high Loan-to-Value ratios (LTV) are primarily at risk and EETI has no exposure in this area. The Investment Manager remains confident in the collateral performance of the positions it owns in these countries, owing to the credit quality and LTV of these portfolios.

Another area closely monitored by the Investment Manager is the general prepayment trend of mortgages in Continental Europe. Prepayment of mortgage loans varies between Continental European countries, but has historically been significantly lower than in the UK, reflecting sociological factors (such as lower household mobility, lower propensity to change dwelling, higher risk aversion to leverage) as well as tighter lending practices. These fundamental characteristics remain true but increased bank consolidation and competition across Europe, coupled with the lowering of prepayment penalties (Italy and Portugal), open the possibility of rising prepayments over the short to medium term.

At this point, the actual prepayment rates of the positions owned by the Company are within the allowance made when pricing the transactions. In addition, the limited refinancing options currently available to banks could impact their appetite to enter into new lending business, thus reducing prepayment by borrowers over the coming quarters.

Detailed Review of Individual Positions

Italy -- Sestante 2, 3 and 4

EETI owns 3 residual positions in prime Italian RMBS, totalling approximately 34% of the total portfolio. As detailed in the table above, these positions include the Sestante 2, Sestante 3 and Sestante 4, issued by Meliorbanca SpA.

The underlying mortgage pools of these positions have a seasoning of approx. 2 to 3.5 years and a weighted average loan-to-value ratio of approx. 70%, with borrowers predominantly located in the Northern Italy. The gross income generated by the Sestante transactions since their purchase is EUR 7.4m.

The collateral performance of these transactions to date has been in line with expectations since purchase, after taking into account reduced expectations for prepayment penalties further to the change in legislation earlier this year. As announced by the Company in the fourth quarter of the financial year 2007, a reduction in prepayment penalties in Italy was voted into law in May 2007, with retroactive effect, leading to a EUR 2.7m impairment charge on the value of these investments, as these flows were part of the expected cash flows.

At this point the Investment Manager is monitoring closely both the prepayment level, as well as the arrears and default trend. The prepayment rates remain within the allowances made at pricing. The prepayment pattern of the transactions over the past months has been less consistent and the full impact of the reduced penalties remains to be assessed. Similarly, overall delinquency has remained at anticipated levels, but the mortgages in these transactions are based on floating rates and their cost to borrowers has risen with Euribor over the past year, which potentially could increase arrears and defaults.

Spain – Pastor 2, 3, 4 and 5

EETI owns 4 investments in prime Spanish RMBS, totalling approximately 18% of the total portfolio. The investments, which were purchased at a discount to their par value, consist of loans or notes funding the reserve funds of the securitisations and carry a fixed spread over Euribor. These investments represent the second loss positions in the deals, with the first loss retained by the originator.

The underlying mortgage pools of these positions have a seasoning of 1.5 to 5.5 years and a weighted average loan-to-value ratio of 61% to 67%, which is in the lower range of the universe of Spanish RMBS. They also benefit from a strong structural alignment of interest with the originator, Banco Pastor, as it retains the profit on the underlying mortgages in the pools.

The investments were entered into in June and August of this year and their performance so far is in line with expectations. The gross income generated by the Pastor transactions since their purchase is EUR 0.2m. It should be noted that contrary to usual equity tranches, the effective return on these investments would increase if prepayment rates exceeded the pricing assumptions, as the Company would receive earlier than anticipated the full par value of the loans or notes purchased at a discount.

The Investment Manager has conducted due diligence on Banco Pastor and is confident that the bank has maintained a prudent underwriting policy over the past years, favouring relationship-driven lending to existing customers and quality asset growth, over rapid market share gains.

The Investment Manager believes that the Company's investments in the Pastor transactions would prove resilient in a downturn, given the characteristics of their collateral, their structure and the standards of the originator.

Portugal – Lusitano 3, 4 and 5

EETI owns 3 investments in prime Portuguese RMBS, totalling approximately 22% of the total portfolio. These include the residual income positions in Lusitano 3, Lusitano 4 and Lusitano 5, issued by Banco Espirito Santo.

The underlying mortgage pools of these positions have a seasoning of 3 to 5 years and a weighted average loan-to-value ratio of 72% to 74%. The collateral performance, including the prepayment rates of these transactions, has been in line with expectations since purchase. The gross income generated by the transactions since purchase is EUR 5.1m.

The principal aspect to be monitored for these transactions is the evolution of the prepayment pattern of the mortgage loans: as in Italy, prepayment penalties have been lowered by law at the beginning of this year with retroactive effect. As these penalties are retained by the originator and are not part of the transactions, no impairment of the assets owned by the Company was warranted at that time. That change could however potentially impact the prepayment pattern of the deals as competition for financial products in Portugal has been high over the past years, with new entrants, notably Spanish institutions, seeking to gain a viable local market share.

UK – Ludgate 2006-1

Ludgate 2006-1 is the only position owned by the Company in the UK. The transaction, originated by a subsidiary of Merrill Lynch, includes mortgages to niche prime borrowers with a weighted average loan-to-value ratio of 80% and a seasoning of 2 years.

The investment has two components: Mortgage Early Repayment Certificates (MERCs), which entitle the Company to receive the prepayment penalties under the mortgages, and Residual Certificates, which entitle the Company to receive the available excess spread after repayment of an excess spread note (Class S). The transaction was purchased by the Company with the expectation that only MERC cash flows would be received until mid-2009 with residual cash flows deferred until that point.

Fitch Ratings announced in a note released on December 6, 2007 a downgrade of the Class S Notes from BB- to B further to a drawdown of approx. GBP 600k on the reserve fund of the transaction. The reserve draw and the downgrade reflect, as also noted by Fitch Ratings, the differential between the base rate (BBR) paid under the mortgages and the level of the 3-month GBP Libor. Due to the turmoil in the credit market, the GBP Libor rates have been approx. 1% above base rate vs. a historical difference of approx. 0.20%. As the mismatch between these two rates is not hedged in the transaction, the current gap between the two rates has reduced available cash flow.

Fitch further notes that *"To date, the performance of the mortgage collateral has been good, with arrears greater than three months currently comprising 1.77% of the outstanding portfolio. To date, there have been no reported losses on the sale of possessions. The good performance of the pool underlines the fact that the issues with this transaction currently relate entirely to interest rate disruption and the lack of hedging."*

The cash flows received so far by the Company under that investment are ahead of expectations, and the ability to achieve the expected returns under the investment will partly depend on the duration of the significant differential between base rate and GBP Libor. The gross income generated by the Ludgate transaction since purchase is EUR 2.2m.

Germany – Provide Gems and Semper 2006-1

The two positions with German collateral represent approx. 8.5% of the total portfolio.

Provide Gems is a securitisation of second lien mortgage loans to prime borrowers originated by Eurohypo and its predecessor banks. The transaction was issued in 2002 and its senior notes have been downgraded several times as defaults and losses had exceeded the expectations of rating agencies.

The Company acquired in June 2007 the Class C notes of the transaction at a discount to par; these notes were originally rated Aa2/A and are currently rated Ba1/BB- by Fitch and Moody's respectively. The transaction was entered into further to detailed analysis of the default and loss history of the pool since issuance indicating that the amount of the subordinated notes (below our investment are Classes D and E as well as the outstanding threshold amount) offered appropriate protection to the Class C against future losses. The collateral performance to date is in line with the pricing assumptions of the transaction.

Semper 2006-1 is a securitisation of commercial loans to municipalities and housing associations for multi-family properties in Eastern Germany originated by Eurohypo. The investment held by the Company is in the second loss piece of that transaction. The transaction has performed in line with expectations since purchase.

The gross income generated by the two transactions since purchase is EUR 0.3m.

France – Minotaure

EETI owns the residual position in FCC Minotaure, which represents 3% of the portfolio.

The transaction is a securitisation of housing loans extended at subsidised rates by the French state-owned utility EDF to its employees. The transaction has performed strongly so far. Note that the cash flows of the residual tranche owned by the Company increase as the prepayment rate rises, as the underlying mortgage loans have been purchased at a discount to their par value and the excess principal at prepayment flows to the residual. The gross income generated by the transaction since purchase is EUR 1.7m.

Netherlands – Shield 1 BV and Memphis 2006-1

The Company holds the Class F Notes of Shield 1 and the Class G Notes of Memphis 2006-1, representing close to 10% of the portfolio. Both investments are in B rated notes backed by prime Dutch collateral originated by ABN Amro and ING respectively.

The investments are second loss pieces, with the first loss provided by a contractual excess spread contribution of the originator. The performance of both transactions has been in line with expectations.

The gross income generated by the two transactions since purchase is EUR 1.5m.

Financing

The Company currently has an amount of EUR 36m drawn under a EUR 70m facility provided by Citigroup. EETI is at the closing stage of a renewal of that facility until December 2008, at the current margin of 2.50%. The Company still intends to issue term financing in the capital markets in 2008. Should the market remain closed, a further extension, to December 2009, is available at the Company's election, at a margin of 5%.

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