River Capital

River Capital Credit Fund

31 October 2011 Report

Performance as at 31 October 2011

	1 Month (%)	3 Months (%)	Financial YTD (%)	1 Year (%)	Inception (p.a. %)
River Capital Credit Fund [1]	3.08	-0.35	0.22	8.81	10.61
Income Distributed (cents per unit)	N/A	N/A	N/A	7.84	7.90[2]
Benchmark for Performance Fee Calculation	0.50	1.48	1.98	6.31	6.34
RBA Cash Rate	0.39	1.17	1.56	4.75	4.60
UBS Composite (All Maturities) Bond Index	-0.57	2.32	4.03	8.42	7.93

Note 1: Fund returns are after management fees but before performance fees, & assume reinvestment of distributions.
2: Calculated as at last distribution date (30 Jun 2011), given that distributions are paid semi-annually.

OVERVIEW & OBJECTIVES

The River Capital Credit Fund's objective is to provide a reliable & consistent income stream with a high degree of capital security over the medium term. We invest in investment grade securities, targeting the best risk-adjusted returns with a focus on subordinated securities issued by the strongest banks, insurers & corporates around the world. The Fund is absolute return focused, investing in wholesale markets globally. All investments are fully hedged back to AUD.

COMMENTS

First of all, apologies that this is the first newsletter since 30 June. We'll be back with quarterly newsletters starting 31st Dec. Please note that our web-site is updated monthly with our latest unit prices & distribution information. We are always available to speak to our investors, so please do not hesitate to contact us with any questions.

We are pleased to report that over the past four months the fund has achieved a positive result for investors, despite the significant turbulence which has seen many asset classes & funds record a negative result for the same period. Not only has the economic data steadily weakened over the period, but more notably the debt burdens of some European countries again sparked much concern.

It appears that the speculation in our March 2011 newsletter, that we were reaching the end of the 2009-2011 cyclical upturn, has indeed proved correct. The ISM survey in the US is a popular gauge of how sectors of the US economy are performing, with above/below 50% indicating expansion/contraction. The ISM has fallen from high readings of 61% in March 2011 (the highest since 2004), & 55% in June 2011, down to 51% recently, providing the lowest readings since June 2009. Non-Farm Payrolls (NFP) in the US have just remained positive, yet stubbornly below 100,000 for each of the last four months. The US needs to create about 250,000-300,000 jobs each month just to keep up with population growth, so each month with a reading below that figure means that the unemployment situation in the US is worsening. Since April 2006 there have only been 3 months where NFP was above 200,000, & from Jan 2008 to Mar 2009 NFP was negative each month. This is creating a huge structural unemployment problem in the US which is unsustainable when viewed alongside the US' debt burden, & huge budget deficits.

While the US will be a source of future market angst, today the focus is on Europe. After a series of purportedly definitive solutions over the past year, it has become clear that Europe's politicians have little grasp of the problem, or are unwilling to take the required medicine. The latest announcement in late October provided some short term relief & bought more time, but not even the most optimistic commentator feels that the problem is solved. At the problem's root, Europe has more debt than it can repay. Default appears the only solution. But where does that stop & can Europe manage the defaults? The Irish are understandably asking why they need to live through the awful austerity to repay debts accrued by their banks, when Greece doesn't. Italy & Spain's 10yr bond yields have risen above where they were before the recent announcement. If we've found a solution, then why isn't the market rushing to buy these cheap Spanish & Italian bonds? This is a long way from over.

The volatility has a significant silver lining however, enabling us to recently make some high quality investments in ANZ, NAB, Rabobank, & others, all yielding more than 10% p.a., some more than 15% p.a. All securities have risk profiles which fall within our tight parameters. Market volatility can cause the price of any investment to fluctuate, but unless something severe happens to the institutions we invest in (i.e: their capital bases being significantly eroded, or them going bankrupt), then our returns are basically guaranteed by the issuer. As we are investing in such high quality institutions, we feel comfortable that the probability of an extreme event is low. Now is not a time to take on even a moderate elevation in risk, when we can achieve such returns from these issuers. We remain fully focused on the risks & also on capturing the best risk adjusted opportunities.

Portfolio Profile	
Modified duration to first call	2.5 years
Current number of securities	12
Suggested investment timeframe	At least 3 years

Maturity/First Call Schedule	Weight (%)
Cash & Equivalents	15.7
0 to 2 years	17.9
2 to 5 years	53.7
5+ years	12.7

Country of Issuer	Weight (%)
Cash & Equivalents	15.7
Australia	64.7
Netherlands	8.7
United Kingdom	6.1
Sweden	4.8

Overview

Trustee River Capital Pty Limited
Auditor Deloitte

Fund Information

Management Fee 0.85% pa
Performance Fee 15% of excess over Benchmark

Contact

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