CREDIT SUISSE

Responsible Entity: Equity Trustees Limited
ABN 46 004 031 298 AFSL 240975
Protection Strategy Provider and Manager : Credit Suisse International
ARBN 062 787 106

Principal Protected Yield Fund

Half yearly report

June 2009

Commentary

In the second quarter of 2009 the global economy showed some signs of stabilization, but for the most part it was less a case of recovery than of a deceleration in the pace of contraction. The Armageddon scenario of a downward spiral in markets, confidence and economic output appeared to have been averted. Risky assets around the world, notably equities and high yield bonds, responded with relief, rallying significantly over the course of the quarter. Still, a sustained recovery remained elusive as there were precious few signs of demand improvement outside of government sectors. Selected emerging economies, while knocked down in a synchronized economic downturn, showed more resilience: those with strong initial conditions and forceful policy responses have managed to "get up off the floor" quicker than others. But the G7 and many other Emerging Market economies remained weak in the face of continued de leveraging and deglobalization. Fortunately, policymakers around the world continued to support their economies and markets with low interest rates, fiscal pump-priming and in many countries, unconventional measures in the form of quantitative or credit easing. Whether this aggressive policy response will lead to an enduring recovery remained to be seen.

Growth and Inflation

The second quarter saw global GDP contract at a slower pace, business sentiment indicators improve from all-time lows and industrial production begin to stabilize after a deep dive. However, not all releases sent a uniformly positive signal, leaving the economic picture quite clouded. While U.S. GDP contracted 5.5% in the first quarter, higher frequency data indicated that the pace of decline slowed in the second quarter; April 2009 industrial production, for instance, fell at its slowest pace in six months. Those hoping for a V-shaped recovery, however, may be disappointed if employment is any indication: the US unemployment rate in June surged to 9.5% and the economy shed another 1.3 million jobs over the quarter. While employment has historically been a lagging indicator, the impact of job and income insecurity on consumer confidence and savings behaviour (the U.S. savings rate rose to 6.9%, a 15-year high) does not bode well for an imminent consumption boom. In the Euro zone, the European Commission survey showed improved sentiment across the region, suggesting that a recovery might be underway. Still, any recovery appears anaemic, as actual industrial orders continued to decline for a ninth consecutive month in April (hitting a new cycle low) and the unemployment rate continued to climb. Similarly in the U.K., while the output reading in the manufacturing Purchasing Managers Index (PMI) climbed above the boom-bust 50 mark, a further downward revision to first quarter GDP highlighted the depths to which the U.K. economy has sunk. Meanwhile, Japan's economy looked to have rebounded modestly after plunging at a double digit pace in the first quarter 2009. Real exports and industrial production rose from the ashes in both April and May, driven largely by improved external demand and an easing in inventory adjustments. Business sentiment also recovered slightly from near-despair levels as the Bank of Japan's quarterly Tankan survey edged up from -58 to -48. However, the collapse of corporate profits and a deteriorating labor market remained headwinds for households and any economic recovery. Emerging markets generally fared better through the global downturn but with greater divergence even among the "BRIC" Countries. While China and Brazil exhibited clear signs of recovery, Russia saw real economic indicators continue to fall, in some cases at an alarming rate.

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Government Policy

With policy rates at the zero bound, the Federal Reserve (Fed), Bank of England and Bank of Japan reiterated their commitments to quantitative easing. The Fed, while winding down some less-used liquidity facilities, maintained a steady approach on asset purchases, declining to alter the size, composition, or timing of its plans. The Bank of England added £50 billion to its asset purchase program, bringing the total to £125 billion, nearly 9% of U.K. GDP. The Bank of Japan also stated they would not end the current credit and quantitative easing policy any time soon. The European Central Bank (ECB), after delivering two rate cuts that took the policy rate to 1%, announced a €60 billion program to buy back covered bonds, describing the action as “credit support” as opposed to “quantitative easing”. The ECB has also been aggressive in providing short-term liquidity to banks, as highlighted by its auction of €442bn (4.8% of GDP) in 1-year loans at a fixed rate of 1%. Emerging economies, meanwhile, focused their efforts on traditional monetary easing which produced an average reduction of about 2.50% in Emerging Markets policy rates over the past nine months.

Financial Markets

Economic stabilization and ample policy support helped restore confidence in financial markets, which not only saw continued improvement in liquidity, but also a jump in risk appetite that pushed government bonds down and everything else up. Sovereign bond yields rose sharply, especially at intermediate and long maturities, as investors regained Interest in non-government bonds and also came to be concerned about the longer term inflationary implications of easy money and increased debt issuance. Ten-year U.S. treasury bonds yielded 3.53% at the end of June, 0.87% higher on the quarter, while yields in the Euro zone, U.K. and Japan increased 0.39%, 0.52% and 0.01% respectively. As inter-bank liquidity continued to improve, spreads on interest rate swaps normalized during the quarter. Front-end swap spreads narrowed, while long-dated spreads widened as banks’ balance sheet constraints eased and long duration investors began shifting into spread sectors. Inflation-linked bonds outperformed nominal bonds in most developed markets. Breakeven inflation levels (the difference between nominal and real yields) continued to rise in the U.S. and Europe, reflecting concerns about debt monetization and long-term inflation risk. Japanese inflation-linked bonds, however, saw little movement as trading remained very illiquid despite more buybacks from Japan’s Ministry of Finance. Corporate bonds rallied strongly in the quarter as investment grade spreads tightened 2.07% and 1.34% in the U.S. and Euro zone, respectively. The financial sector outperformed in both markets as banks began to wean themselves off government aid. Across the quality spectrum, lower tiers rallied the most upon heightened market optimism. Agency MBS also outperformed on the back of Fed purchases. Spreads on emerging market external bonds narrowed sharply, ending the quarter 2.06% lower. Similar to corporate credit, lower quality spreads benefited the most. Local markets also reacted positively to the improvement in sentiment, with Europe, Middle East and Africa (EMEA) leading the rally, followed by Latin America and Asia. Finally, the U.S. dollar underperformed almost all currencies across developed and emerging markets upon improved risk appetite. It ended the quarter weaker against the euro, the pound sterling and the Australian dollar. Emerging market currencies, rebounded significantly.

How did CSPPYF perform to 30th June 2009

	1 month %	3 month%	6 month %	12 month %	Since Inception %*
Growth	-0.87%	-1.08%	-0.70%	-0.73%	-4.41%
Income	0.00%	0.00%	0.00%	0.00%	1.09%
Net returns	-0.87%	-1.08%	-0.70%	-0.73%	-3.35%
Gross returns	-0.84%	-1.00%	-0.53%	-0.38%	-3.02%

*Date of Inception – 11 July 2007

Net Returns are calculated using pre-distribution month end mid unit prices and assumes all income is reinvested in additional units. Gross returns are calculated by adding back the Responsible Entity Fee deducted. **Past performance is not necessarily indicative of future performance. Returns are volatile and may vary from year to year.**

Distribution History (CPU)

	June	Dec
2007	n/a	2.0601
2008	-	-
2009	-	

Please note – the Fund did not distribute income to investors for the period 1 July 2008 to 30 June 2009. Income from the Fund is not fixed and is based on the performance of the Fund’s Portfolio, which during this period, was not sufficient to provide any income.

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