November 14, 2017

Australian Enhanced Income Fund - ASX Code "AYF"
October 2017 Investment Update and NAV

October 2017 NAV and Fund performance

The Fund's NAV of a unit at the close of business on October 31, 2017 was $**6.085** per unit. This compares with the ex-distribution NAV of a unit at the close of business on 29 September of $6.0525. The change in NAV over the month of October represents a return of **0.54%.** The franking benefit for October was estimated to be **0.01%**.

Performance	1 month	3 months	12 months	5 Year p.a.
Australian Enhanced Income Fund*	0.54%	1.20%	8.51%	5.63%
UBS(A) Bank Bill Index	0.15%	0.43%	1.76%	2.40%

*Returns do not include the benefit of franking. Past performance is not necessarily a guide to future performance.

Relative performance

Including the value of franking credits the ASX listed hybrid sector returned 0.85% for the month. This compares with the All Ordinaries Accumulation Index return of 4.06% and the UBSA Bank Bill Index return of 0.15%.

After fees but before the value of franking, the Fund underperformed the broader market this month. The Fund's rolling annual net return, which excludes the benefit of franking but is net of all fees, for the 12 month period ending 31 October was 8.51%.

What the drawdown charts tell us

The chart overleaf is a drawdown chart of the S&P 500, the All Ordinaries Index and a 5 year duration "BBB" rated bond since 1949. A drawdown chart is a way to measure the time, along the horizontal axis and the extent, along the vertical axis of an indices' movement from one all-time index high to the next all time index high. The horizontal line at the top of the chart is base 100 and it denotes an indices' all-time high. Ideally what you want as an investor is for drawdowns to be shallow and not very long (i.e the movement from one all-time high to the next is not big and not long in duration).

While timing can be critical in equity investment decision making, particularly US equity decision making, it is less critical in "BBB" credit. In the chart we have shaded in light blue the US recessionary periods. Clearly there is a relationship between recessionary periods and equity market performance. The trick is to time your exit point in US Equities is to be able to predict in advance the likelihood of a recession. The observant will notice that while Australia has not experienced a recession since 1992 the All Ordinaries has not only been more volatile than the S&P 500 but since then it has spent an inordinately long time below all-time previous index highs (like the last 10 years). Contrast this with the "BBB" 5 year duration bond where drawdowns are typically not deep and not very long. As managers of securities issued by "BBB" rated issuers we are most interested in the performance of "BBB" rated credit. Interestingly, recessionary periods don't appear to influence the performance of BBB rated credit all that much.

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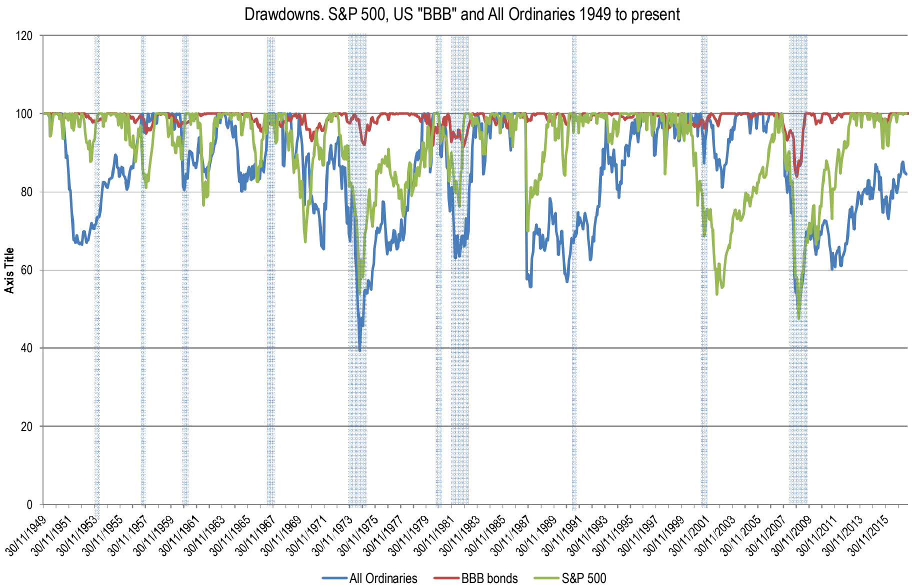

The key to understanding the 'carry' over the risk free rate provided by "BBB" securities.

It's simple maths that the additional excess return derived from investing in "BBB" over and above the risk free rate (currently around 2%) is sufficient to make up for any volatility over a reasonably short time period. Investors should appreciate it and enjoy it. Australian hybrids are generally issued by investment grade issuers, so in the long run they behave like "BBB" securities. In the short run, they are more volatile, particularly when equity markets are weak but they are also higher yielding than "BBB" bonds, so it is difficult to underperform the risk free rate under almost any scenario. While market timing is not an issue being out of the market can be costly.

Fund ready reckoner. Fund metrics and portfolio characteristics at a glance

	September 2017	October 2017
Net Asset Value (NAV) - ex-distribution.	$6.0525#	$6.085
Change in NAV month on previous month (mopm)*	0.43%	0.54%
Total investment return includes the value of franking (mopm)	0.66%	0.55%
Dividend (declared October 2017 and payable 17 October 2017)	$0.0875	n/a
Percent franked (*quarterly estimate @ 30% tax rate*)	45.87%	n/a
Ex-distribution cash yield per annum (basis NAV)	5.78%	5.75%
Ex-distribution grossed up yield basis NAV per annum (*estimated*)	6.61%	6.57%
Investment grade issuer (including cash)	90%	90%
Fund average term	4.2 years	4.2 years
Bank Tier 1 exposure	48%	48%
Property exposure	6%	6%

* Returns do not include the benefit of franking. Past performance is not necessarily a guide to future performance. # Ex-Distribution

For additional information please contact **Norman Derham** at Elstree Investment Management Limited on (03) 8689 1348 or by email info@eiml.com.au While the information in this report has been prepared with reasonable care Elstree Investment Management Limited accepts no responsibility for any errors, omissions or misstatements however caused. This is general securities information only and is not intended to be a securities recommendation. This information does not account for your individual objectives, needs or financial situation.