

**AUSTRALIAN ENHANCED INCOME FUND  
ARSN 115 632 990**

**ANNUAL REPORT  
FOR YEAR  
ENDED 30 JUNE 2018**

**RESPONSIBLE ENTITY  
ELSTREE INVESTMENT MANAGEMENT LTD  
LEVEL 10, 30 COLLINS ST  
MELBOURNE, VIC, 3000**

**AUSTRALIAN ENHANCED INCOME FUND**  
**ARSN 115 632 990**

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**AUSTRALIAN ENHANCED INCOME FUND**  
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**CORPORATE GOVERNANCE STATEMENT**

**CORPORATE GOVERNANCE STATEMENT**

A description of the Responsible Entity's corporate governance structure and practices is outlined below. These practices, unless otherwise stated, comply with the ASX Corporate Governance Principles and Recommendations 2014 Amendments (3rd Edition). These practices, unless otherwise stated were in place for the 12 month period ending 30 June 2018.

**Role of the Board of Directors and Management**

The day to day management of the Australian Enhanced Income Fund (the "Fund") is conducted by Elstree Investment Management Limited (the "Manager") pursuant to a management agreement. The Manager is the Responsible Entity ("RE").

The Board of the RE ("RE Board") is responsible for corporate governance. The RE Board is responsible for;

- Overseeing and monitoring the performance of the Manager;
- Ensuring that the Manager complies with the management agreement;
- Ensuring that the Manager is monitoring the performance of external service providers including the custodian and unit registry;
- Ensuring adequate internal controls exist and are appropriately monitored for compliance;
- Ensuring significant business risks are identified and managed appropriately;
- Approving the interim and final financial statements and related reports and periodic communications to the market and unitholders through the ASX that the RE Board deems material; and
- Setting appropriate business standards and codes for ethical behavior.

Because the RE has no full time employees the RE Board has deemed that setting measurable objectives under policy Recommendations 1.1 and 1.7 not to be appropriate.

The RE Board aims to ensure that its' directors and the Manager act with integrity and objectivity to enhance the reputation of the RE. The RE Board and the Manager also act in a manner designed to create value for all unitholders.

The RE Board reviews its collective performance as well as the individual performance of its directors by discussion with the Chairman using generally accepted board performance principals and standards (Recommendation 1.6). A performance review was not undertaken in the 2018 FY.

**Structure of the Board**

The RE Board currently has no independent representation. The Directors of the RE Board are all executives of the Manager. The RE Board consists of Campbell Dawson (Chairman), Norman Derham and John Abbott. The RE Board has appointed Norman Derham as Secretary. The 3 directors have over 90 combined years' capital markets experience between them. Details about the directors including qualifications, expertise and relevant industry experience can be found on the RE's website [www.eiml.com.au](http://www.eiml.com.au) and in the Annual Report.

While the RE Board does not contain any independent directors, it is a legal requirement of the Fund's Constitution ("Constitution") that the RE Board appoint a Risk Management and Compliance Committee ("Risk Committee") for the Fund with a majority of independent representation to oversee the risk and compliance functions. The RE Board has complied with this requirement and has appointed a Risk Committee.

Despite the RE Board not having independent representation the RE Board is comfortable with its current structure because of the level of independent representation provided by the Risk Committee. While the RE directors have not received formal letters of engagement (Recommendation 1.3) they are fully conversant with their respective roles and responsibilities the details of which can be found in the Annual Report and on the RE's website [www.eim.com.au](http://www.eim.com.au) The RE Directors are required to undertake up to 20 hours a year over any rolling 3 year period of personal development (Recommendation 2.6).

As executives of the Manager the RE directors collectively drive and are responsible for the success and performance of the Fund. The RE directors are significant unitholders in the Fund so their interests are closely aligned to the interests of all unitholders.

While the RE Board is cognizant of diversity of age, gender and ethnicity (Recommendation 1.5), due to the RE Board's small size the RE Board deems it not necessary to have a formal diversity policy and because RE Board members receives no remuneration (the RE Board members are remunerated as executives of the Manager) it has not appointed a Nomination Committee (Recommendation 2.1).

### **Act ethically and responsibly (Recommendations: 3.1)**

While the RE does not have currently have a formal Code of Conduct it recognizes the importance of honesty, fairness, integrity and managing conflicts of interest. In managing conflicts of interest the RE Board has established a formal Trading Policy ("Policy") for its members and the executives of the Manager (one of the same). In summary the Policy provides details of;

- A transaction window for transacting in units directly in the Fund and the requirement to obtain documented pre-transaction approval from the Chairman of the RE Board. In the Chairman's absence another director must provide approval;
- A moratorium in dealing directly in the Fund's units during this transaction window while in possession of price sensitive information; and
- Dealings in securities in which the Manager is transacting or may be considering transacting in. An RE Director must seek pre-transaction documented approval from the Chairman of the RE Board or in the Chairman's absence another director before transacting in any security that the Manager is transacting in or is considering transacting in.

Additional details of the Policy can be found on the RE's website at [www.eiml.com.au](http://www.eiml.com.au)

### **Safeguarding integrity in corporate reporting (Recommendations: 4.1 to 4.3)**

As a registered Managed Investment Scheme ("MIS") it is a requirement that the RE lodge a Compliance Plan ("Plan") with Australian Securities and Investments Commission ("ASIC"). The Plan is reviewed by the RE Board on a regular basis to ensure that the way in which the RE operates is appropriate. The Plan ensures the rights and interests of unit holders are protected and that compliance risks are identified and managed appropriately.

The RE Board has appointed a Risk Committee for the Fund. It is a legal requirement of the Fund's Constitution that a Risk Committee, with a majority of independent representation, be established to ensure that the Fund complies with the Corporations Law and the Fund's Constitution.

The Risk Committee meets quarterly and reports directly to the RE Board.

Members of the Risk Committee include Campbell Dawson (Chairperson), Richard Oakes (independent member) and Els Termaat (independent member). The RE Board considers that because of the broad scope of the Risk Committee, which includes as part of its function, the timing and integrity of corporate reporting, it is not necessary to appoint an Internal Audit Committee under Recommendation 4.1.

Details of the number of meetings of the Risk Committee during the 2018 FY are detailed in the Annual Report.

The RE Board has appointed BDO East Coast Partnership ("Auditor") as auditor of the Fund. The partner responsible for the 2018 financial year audit of the Fund was Kieran Gould.

Due to cost and practicalities issues the auditor did not attend the 2017 Annual General Meeting ("AGM") to answer unitholder questions about the audit and the preparation of the audit. The Auditor expressed its willingness to respond to unitholder enquiries directly any time both before and after the AGM. Contact details of the auditor can be found in the Annual Report.

The RE's accountant in conjunction with the Manager provide written confirmation to the RE Board that the Fund's Financial Reports truly and accurately represent the Fund's position in accordance with the relevant accounting standards as reported at the time (Recommendation 4.2).

**Make timely and balanced disclosure (Recommendations: 5.1)**

While the RE does not have a formal written procedure regarding timely and balanced reporting it is governed by the Corporations Law, the Constitution and the continuous reporting requirements of the ASX Listing Rules ("Rules"). The RE Board, ensures that relevant information is released in a timely and appropriate manner so that the market and unitholders have an equal opportunity to assess relevant and material information concerning the Fund and the Fund's performance.

The RE Board ensures that this information is factual and presented in a clear, concise and balanced way. The Secretary of the RE is responsible for ensuring that information is released to the market and unitholders.

The Secretary reports to the RE Board on the effectiveness of this process on an annual or needs be basis.

**Respect the rights of security holders (Recommendations: 6.1 to 6.4)**

The RE Board aims to ensure that the unitholders are informed of all major developments affecting the Fund and the performance of the Fund. The Secretary is responsible for coordinating the disclosure of information to unitholders and regulators under the direction of the RE Board.

The RE is committed to:

- Ensuring that unitholders and the market are provided with full and timely information about the Fund's activities and that this information is presented in a balanced, concise and understandable way. This is undertaken through annual and half yearly reports, Net Asset Back reporting, investor presentations, investor briefings, ASX releases, general meetings and the RE's website;
- Complying with continuous disclosure obligations contained in the applicable ASX Listing Rules and the Corporations Act; and
- Encouraging unitholder participation at general meetings and information sessions.

The RE Board encourages full participation of unitholders at the Annual General Meeting ("AGM") so as to ensure a high level of identification with the Fund's strategy. Unitholder information sessions are held annually following the AGM in Melbourne. Information sessions are also held in Sydney and on a 'needs' basis in Adelaide and Brisbane. Information sessions provide a forum where unitholders are afforded an opportunity to raise questions and participate in a general discussion about the Fund in a relaxed forum.

The RE can confirm that the RE's appointed registrar, Advanced Share Registry Limited, provides the option for unitholders to receive and send communications electronically. Where possible unitholders are encouraged to send and receive information in this way.

**Recognize and manage risk (Recommendations: 7.1 to 7.4)**

As detailed in Recommendation 4 the RE Board has appointed a Risk Committee for the Fund. The qualifications of the appointed members to the Risk Committee are detailed at the RE's website [www.eiml.com.au](http://www.eiml.com.au)

The Risk Committee is responsible for identifying and managing operational risk issues such as legal and regulatory risk, systems and process risk and outsourcing risk.

The RE Board requires the Risk Committee to;

- report quarterly on operational and key business risks,
- review any external audit commentary in respect to internal controls,

- conduct any other investigations it requires in order to report on the effectiveness of the internal control system and
- report annually on the robustness of the risk management framework.

The RE can confirm that the RE Board has received assurance from the Risk Committee that for the 2018 FY in the Risk Committee's opinion:

- the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control; and
- the system of risk management and internal control is operating effectively in all material respects in relation to financial reporting risks.

**Remuneration fairly and responsibly (Recommendations: 8.1 to 8.3)**

Directors of the RE Board are not remunerated. As such there is no Remuneration Committee (Recommendation 8.1) nor is there an equity based remuneration scheme available to the directors of the RE Board (Recommendation 8.3).

As executive directors of the Manager, Campbell Dawson, Norman Derham and John Abbott are remunerated by the Manager.

**AUSTRALIAN ENHANCED INCOME FUND**  
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**DIRECTORS OF THE RESPONSIBLE ENTITY REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**DIRECTORS' REPORT**

The directors of Elstree Investment Management Limited, the responsible entity for the Australian Enhanced Income Fund ("the Fund") present their report together with the financial report of the Australian Enhanced Income Fund for the year ended 30 June 2018.

The financial statements and notes are in accordance with the Corporations Act 2001 and comply with Accounting Standards and Regulations.

**PRINCIPAL ACTIVITIES**

The Fund invests in listed and unlisted debt hybrid securities and cash investments in accordance with the Fund Constitution and the Fund Product Disclosure Statement.

There were no significant changes in the nature of the Fund's activities during the period.

The Fund has not gained or lost control of any entities over the reporting period.

The Fund has no associates and is not involved in joint venture entities.

**RESPONSIBLE ENTITY**

The responsible entity and ultimate controlling party of the Australian Enhanced Income Fund is Elstree Investment Management Limited.

The Directors in office at any time during or since the end of the year and up to the date of this report are:

	Campbell E Dawson	Norman St. G Derham	John P Abbott
Qualifications	Bachelor of Commerce Graduate Diploma of Applied Finance Chartered Financial Analyst	Bachelor of Economics	Bachelor of Commerce
Experience	36 years' experience in funds management and banking	38 years' experience in financial markets	29 years' experience in fixed interest funds management
Special responsibilities	Nil	Nil	Nil
Directors' meetings attended	11	11	11

**AUSTRALIAN ENHANCED INCOME FUND**  
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**DIRECTORS OF THE RESPONSIBLE ENTITY REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**REVIEW OF OPERATIONS**

During the period, the Fund managed the investments in accordance with the Product Disclosure Statement (the "PDS") and the Constitution.

The Fund produced a positive return this year with capital gains in addition to income. The pattern of the year was a strong first half of the year followed by weakness in the early part of the second half and a strong June performance.

The fund performed well, producing returns above market and term deposit levels.

The performance of the Fund was as follows;

	Year ended 30 June 2018	Year ended 30 June 2017
	\$	\$
Net operating profit/(loss)	665,202	1,951,234
Distributions paid and payable	1,172,937	1,142,837
Distributions (cents per unit)	35.00	35.00

**FINANCIAL POSITION**

**Net Asset Value per unit as disclosed to the ASX**

	Year ended 30 June 2018	Year ended 30 June 2017
	\$	\$
As at end of the year	6.011	6.071
High during the year	6.114	6.122
Low during the year	5.877	5.883

**Unit movements and issue**

	Year ended 30 June 2018	Year ended 30 June 2017
Units on issue at start of year	3,286,311	3,223,824
Units issued	89,626	143,209
Units redeemed	(69,299)	(80,722)
Units on issue at end of year	3,306,638	3,286,311

The value of net assets and liabilities and details of the unit movements are disclosed in the financial statements.



**AUSTRALIAN ENHANCED INCOME FUND**  
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**DIRECTORS OF THE RESPONSIBLE ENTITY REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial period under review.

**MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR**

There have been no matters or circumstances that have arisen since 30 June 2018 that have significantly affected, or may significantly affect;

- the operations of the Fund in future financial years;
- the result of those operations in future financial years; or
- the state of affairs of the Fund in future financial years

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS**

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund Constitution.

The results of the Fund and its operations will be affected by a number of factors including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns if investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the responsible entity believes it would be likely to result in unreasonable prejudice to the Fund.

**INDEMNIFICATION AND INSURANCE OF OFFICERS**

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Elstree Investment Management Limited or the auditors of the Fund. Provided the officers of Elstree Investment Management Limited act in accordance with the Fund constitutions and the law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

**REMUNERATION REPORT (audited)**

Key management personnel are Directors of Elstree Investment Management Limited, the responsible entity of the Fund. Key management personnel receive no remuneration from the Fund.

**AUSTRALIAN ENHANCED INCOME FUND**  
**ARSN 115 632 990**  
**DIRECTORS OF THE RESPONSIBLE ENTITY REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**REMUNERATION REPORT (CONTINUED)**

As at 30 June 2018 the Fund's key management personnel held the following interests in the Fund

*Units held*

<b>Directors</b>	<b>Position</b>	<b>Balance at 30 June 2017</b>	<b>Acquisitions/ Options Exercised</b>	<b>Options lapsed</b>	<b>Disposals</b>	<b>Balance at 30 June 2018</b>
C.E. Dawson	Chairman	40,238	-	-	-	40,238
N.S. Derham	Director	19,772	-	-	-	19,772
J. Abbott	Director	9,100	-	-	-	9,100

*Units held*

<b>Directors</b>	<b>Position</b>	<b>Balance at 30 June 2016</b>	<b>Acquisitions/ Options Exercised</b>	<b>Options lapsed</b>	<b>Disposals</b>	<b>Balance at 30 June 2017</b>
C.E. Dawson	Chairman	40,238	-	-	-	40,238
N.S. Derham	Director	19,772	-	-	-	19,772
J. Abbott	Director	9,100	-	-	-	9,100

Directors and director related entities disposed of and acquired ordinary units and options in the Fund on the same terms and conditions available to other unitholders.

The Directors have not, during or since the end financial year, been granted options over unissued shares or interests in units of the Fund as part of their remuneration.

The Responsible Entity or its associates have no other interests in the Fund except as described above

***This concludes the remuneration report, which has been audited.***

**ENVIRONMENTAL REGULATION**

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

**PROCEEDINGS ON BEHALF OF FUND**

No person has applied for leave of Court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is party for the purpose of taking responsibility on behalf of the Fund for all or any part of those proceedings.

The Fund was not a party to any such proceedings during the year.

**AUSTRALIAN ENHANCED INCOME FUND**  
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**DIRECTORS OF THE RESPONSIBLE ENTITY REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**AUDIT SERVICES**

During the year, BDO East Coast Partnership (BDO), the Fund's auditor, did not perform any other services in addition to their statutory duties for the Fund. Details of the amounts paid to the auditor and their related parties are disclosed in note 4 to the Financial Statements.

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the year, the Fund has not paid a premium in respect of a contract to insure the auditor of the Fund or any related entity.

**FEES PAID TO AND INTERESTS HELD IN THE FUND BY THE RESPONSIBLE ENTITY OR ITS ASSOCIATES**

In accordance with the PDS and Constitution, the Responsible Entity received a fee of 0.85% of the net value of assets for the management of the Fund for the period ended 30 June 2018. This amount is calculated monthly and paid quarterly and totalled \$158,311 (year ended 30 June 2017: \$156,543).

Interests held in the Fund by the Responsible Entity or its associates are disclosed in note 12 of the Notes to the Financial Statements.

**AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 12.

This report is signed in accordance with a resolution of the Board of Directors of the Responsible Entity.



Campbell Dawson  
Director  
Sydney  
28 August 2018

**DECLARATION OF INDEPENDENCE BY KIERAN GOULD TO THE DIRECTORS OF ELSTREE INVESTMENT MANAGEMENT LIMITED, RESPONSIBLE ENTITY OF AUSTRALIAN ENHANCED INCOME FUND**

As lead auditor of Australian Enhanced Income Fund for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.



Kieran Gould  
Partner

**BDO East Coast Partnership**

Sydney, 28 August 2018

**AUSTRALIAN ENHANCED INCOME FUND**  
**ARSN 115 632 990**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Notes	June 2018 \$	June 2017 \$
Revenue	<b>3(a)</b>	873,359	871,139
Management fees		(158,311)	(156,543)
Fund expenses		(131,931)	(97,070)
Net gain/(loss) on financial assets held at fair value through profit or loss	<b>3(b)</b>	82,085	1,333,708
<b>Profit attributable to unitholders before income tax</b>	<b>6</b>	<b>665,202</b>	<b>1,951,234</b>
Income tax expense	<b>1(a)</b>	-	-
<b>Profit attributable to unitholders</b>		<b>665,202</b>	<b>1,951,234</b>
<b>Finance costs attributable to unitholders</b>			
Distributions paid or payable to unitholders	<b>7</b>	(1,172,937)	(1,142,837)
Decrease in net assets attributable to unitholders		<b>507,735</b>	<b>(808,396)</b>
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income attributable to unitholders</b>		<b>-</b>	<b>-</b>
<b>Basic earnings per unit (cents)</b>	<b>19</b>	20.0	60.0
<b>Diluted earnings per unit (cents)</b>	<b>19</b>	20.0	60.0

The statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

**AUSTRALIAN ENHANCED INCOME FUND**  
**ARSN 115 632 990**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2018**

	Notes	June 2018 \$	June 2017 \$
<b>Assets</b>			
Cash and cash equivalents	8	322,001	1,133,325
Trade and other receivables	5	230,077	37,111
Financial assets held at fair value through profit or loss	9,20	19,472,241	19,423,687
<b>Total Assets</b>		<u><b>20,024,319</b></u>	<u><b>20,594,123</b></u>
<b>Liabilities</b>			
Trade and other payables	10	225,301	427,548
Distributions payable	7	289,332	287,552
<b>Total Liabilities (excluding net assets attributable to unitholders)</b>		<u><b>514,633</b></u>	<u><b>715,100</b></u>
Net assets attributable to unitholders	6	19,509,686	19,879,023
<b>Total Liabilities</b>		<u><b>20,024,319</b></u>	<u><b>20,594,123</b></u>

The statement of financial position should be read in conjunction with the accompanying notes.

**AUSTRALIAN ENHANCED INCOME FUND**  
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**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2018**

In accordance with AASB 132 Financial Instruments: Presentation, unitholders' funds are classified as a liability and accordingly the Fund has no equity for financial statements purposes. As a result there was no equity at the start or end of the financial year.

**AUSTRALIAN ENHANCED INCOME FUND**  
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**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Notes	June 2018 \$	June 2017 \$
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from the sale of securities		9,618,680	16,615,709
Purchases of securities		(9,894,885)	(16,569,322)
Dividends and distributions received		586,755	487,372
Interest received		263,118	393,739
Other income		3,493	8,729
Payments to suppliers		(361,018)	133,190
<b>Net cash from/(used) in operating activities</b>	<b>13</b>	<b>216,143</b>	<b>803,037</b>
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from applications by unitholders		549,038	1,826,348
Units redeemed		(410,638)	(486,757)
Distributions paid		(1,165,687)	(1,133,821)
<b>Net cash from/(used) in financing activities</b>		<b>(1,027,467)</b>	<b>205,770</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(811,324)</b>	<b>1,008,807</b>
Cash and cash equivalents at beginning of period		1,133,325	124,518
<b>Cash and cash equivalents at end of period</b>	<b>8</b>	<b>322,001</b>	<b>1,133,325</b>

The statement of cash flows should be read in conjunction with the accompanying notes.



**AUSTRALIAN ENHANCED INCOME FUND**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for profit oriented entities.

The Fund is a listed registered managed investment scheme, incorporated and domiciled in Australia.

The financial report has been approved for release by Board of Directors of the Responsible Entity on 19 August 2018. The Board of Directors of the Responsible Entity have the power to amend and reissue the financial report.

The following is a summary of the material accounting policies adopted in the preparation of the financial report. The accounting policies have been consistently applied, and except where there is a change in accounting policy, are consistent with those of the previous year.

**Basis of Preparation**

These financial statements comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

The financial statements have been prepared on an accruals basis and are based on historical costs with the exception of "held-for-trading" financial assets and certain other financial assets and liabilities which have been measured at fair value.

Amounts in this report have been rounded to the nearest dollar.

The registered office and principal place of business are

Level 10, 30 Collins St.  
Melbourne, VIC, 3000

**Accounting Policies**

**(a) Income Tax**

Under the Income Tax Assessment Act 1997, the Fund is not subject to income tax provided the net income including assessable capital gains tax is fully distributed to unitholders. The distributions are recognised in the statement of profit or loss and other comprehensive income as financing costs attributable to unitholders.

Where net income is not fully distributable, the undistributed portion is subject to income tax at 48.5%.

Financial assets held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefits of imputation credits and foreign tax paid are passed to unitholders.

**AUSTRALIAN ENHANCED INCOME FUND**  
**ARSN 115 632 990**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Distributions**

In accordance with the Fund Constitution, the Fund fully distributes its distributable (taxable) income to unitholders by cash or reinvestment. The distributions are recognised in the statement of profit or loss and other comprehensive income as financing costs attributable to unitholders. The Fund has distributed more than its taxable income over the past two years.

**(c) Financial Assets**

*i) Classification*

Financial assets consist of debt securities, including corporate bonds, convertible notes and hybrid securities in publicly listed and unlisted companies and investments in fixed interest securities.

It is considered that the information needs of unitholders in a Fund of this type are better met by stating investments at fair value rather than historical cost and by presenting the statement of financial position on a liquidity basis.

*ii) Valuation*

All financial assets are classified as “held-for-trading” investments and are recognised at fair value, being market value, with changes in fair value recognised in the statement of profit or loss and other comprehensive income. Financial assets are priced at current bid prices.

*iii) Investment income*

Dividend and distribution income is recognised in the statement of profit or loss and other comprehensive income on the day on which the relevant investment is first quoted on an “ex-dividend” or “ex-distribution” basis.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

**(d) Impairment of Assets**

At each reporting date, the directors of the responsible entity review the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset’s fair value less costs to sell and value in use, is compared to the asset’s carrying value. Any excess of the asset’s carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

**(e) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, at call deposits with banks or financial institutions.

**(f) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**AUSTRALIAN ENHANCED INCOME FUND**  
**ARSN 115 632 990**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) Net Assets Attributable to Unitholders**

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Fund at selected times for cash equal to the proportionate share of the Fund's net asset value.

The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the reporting date if unitholders exercised their right to put the units back to the Fund.

**(h) Increase/ (Decrease) in Net Assets Attributable to Unitholders**

Non-distributable income is included in net assets attributable to unitholders and may consist of unrealised changes in the net fair value of financial instruments held at fair value through profit or loss, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible, net capital losses and tax free deferred income. Net assets attributable to unitholders are classified and disclosed as a liability in the statement of financial position.

Net capital gains on the realisation of any financial instruments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax.

**(i) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

**(j) Trade and Other Receivables**

Receivables may include amounts for dividends, interest and securities sold where settlement has not occurred. Dividends are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of the last payment. Amounts are generally received within 30 days of being recorded as receivables.

**(k) Trade and Other Payables**

Trades are recorded on trade date and normally settled within 3 business days. Purchases of securities and investments that are unsettled at reporting date are included in payables.

Payables include liabilities and accrued expenses owed by the Fund which are unpaid as at the reporting date.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the statement of financial position as unitholders are presently entitled to the distributable income at year end under the Fund's constitution.

**AUSTRALIAN ENHANCED INCOME FUND**  
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**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(l) Applications and Redemptions**

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are made at the exit price and are recorded gross of any exit fees payable after the cancellation of units redeemed.

Unit redemption prices are determined by reference to the net assets of the Fund and divided by the number of units on issue.

**(m) Expenses**

All expenses, including responsible entity's fees and custodian fees, are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

**(n) Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

In the application of the Fund's accounting policies, which are described in Note 1, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The Fund hold's investments which are not quoted prices in public markets. The Fund uses prices from various broker and bank reports to estimate their value.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**(o) Adoption of new and revised Accounting Standards.**

The Fund has adopted all new, revised or amending Accounting Standards issued by the Australian Accounting Standards Board (AASB) that are mandatory for reporting period ending on or prior to 30 June 2018, as provided below. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the Fund from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Fund.

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**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

There are no other Standards that are not yet effective and that are expected to have an impact on the entity in the current or future reporting periods and on foreseeable future transactions.

**(p) Accounting Standards Not Previously Applied**

Australian Accounting Standards and Interpretations that have recently been issued or amended, but are not yet mandatory, have not been early adopted by the Fund for the annual reporting period ended 30 June 2018. As at the date of this report there are a number of new accounting standards and interpretations that have been issued and are applicable to the Fund but are not yet effective for reporting periods ending on or prior to 30 June 2018, as provided below:

AASB 9 Financial Instruments. (issued December 2009 and amended December 2010 and December 2013 and June 2014)	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Adoption of AASB 9 is only mandatory for the year ending 30 June 2019. There will be no impact on the financial statements when these amendments are first adopted because the Fund recognises Financial Assets as fair value through profit or loss.
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**AUSTRALIAN ENHANCED INCOME FUND**  
**ARSN 115 632 990**  
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**2. FINANCIAL RISK AND MANAGEMENT POLICIES**

The Fund's principal financial instruments comprise receivables, payables, cash and short-term deposits and financial assets held at fair value through profit or loss. These activities expose the Fund to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

Although the Fund does not have documented policies and procedures, the Directors manage the different types of risks to which it is exposed by considering risk and monitoring levels of exposure to interest rate risk and by being aware of market forecasts for interest rates. Liquidity risk is monitored through analysis of market liquidity.

The Fund holds the following financial instruments:

	<b>June 2018</b>	<b>June 2017</b>
	\$	\$
<b>Financial Assets</b>		
Cash and cash equivalents	322,001	1,133,325
Trade and other receivables	230,077	37,111
Financial assets at fair value through profit or loss	19,472,241	19,423,687
<b>Total Financial Assets</b>	<b><u>20,024,319</u></b>	<b><u>20,594,123</u></b>
<b>Financial Liabilities</b>		
Trade and other payables	225,301	427,548
Distributions payable	289,332	287,552
<b>Total Financial Liabilities</b>	<b><u>514,633</u></b>	<b><u>715,100</u></b>
<b>Net exposure</b>	<b><u>19,509,686</u></b>	<b><u>19,879,023</u></b>

**Risk Exposures and Responses**

**Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Fund's exposure to market interest rates relates primarily to the Fund's holding of debt and debt like securities.

The Fund manages its interest rate risk with reference to analysis of the expected change in interest rates due to economic and other factors.

**AUSTRALIAN ENHANCED INCOME FUND**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. FINANCIAL RISK AND MANAGEMENT POLICIES (CONTINUED)**

**Sensitivity Analysis**

The following sensitivity analysis is based on the interest rate risk exposures in existence at year end:

	<b>Net Profit Higher / (Lower)</b>		<b>Net Assets Higher / (Lower)</b>	
	<b>Year Ended 30 June</b>		<b>Year Ended 30 June</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	\$	\$	\$	\$
+ 1% (100 basis points)	(962,788)	(927,851)	(962,788)	(927,851)
- 0.5 % (50 basis points)	530,597	283,463	530,597	283,463

This risk is inherently linked to movements in market price. The impact of a change in the yield to expected maturity, as presented above, on post tax profit or net assets is not mutually exclusive to the change in price risk illustrated in the price risk disclosure note below.

**Credit risk**

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at the reporting date to recognised financial assets is the carrying amount of those assets, net of any allowance for impairment, as disclosed in the statement of financial position and notes to the financial report.

The Fund trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Fund's policy to secure its trade and other receivables.

In addition, receivable balances are monitored on an ongoing basis with the result that the Fund's exposure to bad debts is not significant. There are no significant concentrations of credit risk.

**AUSTRALIAN ENHANCED INCOME FUND**  
**ARSN 115 632 990**  
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**2. FINANCIAL RISK AND MANAGEMENT POLICIES (CONTINUED)**

**Price risk**

Price risk is the risk that the value of the Fund's investment portfolio will fluctuate as a result of changes in market prices.

The Fund has exposure to changes in security prices. The Fund's securities are generally listed on the ASX and are exposed to changes in prices due to changes in interest rates and other market risk factors.

Prices are affected by changes in both the general level of interest rates and the extra margin applying to each security. The extra margin is influenced by market, company and security specific issues.

The risk is managed by the responsible entity ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. The following sensitivity analysis is based on the price risk exposures in existence at year end.

	<b>Net Profit</b>		<b>Net Assets</b>	
	<b>Higher / (Lower)</b>		<b>Higher / (Lower)</b>	
	<b>Year Ended</b>		<b>Year Ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	\$	\$	\$	\$
Change in price +5%	973,612	971,184	973,612	971,184
Change in price -5%	(973,612)	(971,184)	(973,612)	(971,184)



**AUSTRALIAN ENHANCED INCOME FUND**  
**ARSN 115 632 990**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. FINANCIAL RISK AND MANAGEMENT POLICIES (CONTINUED)**

**Liquidity Risk**

Liquidity risk is the risk that the Fund will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial liabilities.

The Fund manages liquidity risk by monitoring cash flow and maturity profiles of financial assets and liabilities.

**Maturities of financial liabilities**

The tables below analyse the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The grouping below is based on the expected maturities of the underlying assets. Unit holders are able to redeem units on a monthly basis and all assets are highly liquid. Carrying value of the financial liabilities approximate future cash outflow.

<b>Year ended 30 June 2018</b>	<b>&lt; 6 months \$</b>	<b>6 – 12 months \$</b>	<b>1 – 5 years \$</b>	<b>&gt; 5 years \$</b>	<b>Total \$</b>
<b>Financial liabilities</b>					
Trade and other payables	225,301	-	-	-	225,301
Distributions payable	289,322	-	-	-	289,322
<b>Financial Liabilities</b>	<b>514,633</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>514,633</b>
<b>Year ended 30 June 2017</b>					
	<b>&lt; 6 months \$</b>	<b>6 – 12 months \$</b>	<b>1 – 5 years \$</b>	<b>&gt; 5 years \$</b>	<b>Total \$</b>
<b>Financial liabilities</b>					
Trade and other payables	427,548	-	-	-	427,548
Distributions payable	287,552	-	-	-	287,552
<b>Financial Liabilities</b>	<b>715,100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>715,100</b>

**AUSTRALIAN ENHANCED INCOME FUND**  
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**2. FINANCIAL RISK AND MANAGEMENT POLICIES (CONTINUED)**

**Foreign Exchange risk**

The Fund has no direct exposure to foreign exchange risk.

**Net fair value of Financial Assets and Financial Liabilities**

The carrying amounts of financial assets and liabilities are shown in the statement of financial position at their appropriate fair value.

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

<b>Year ended 30 June 2018</b>	<b>Level 1</b> <b>\$</b>	<b>Level 2</b> <b>\$</b>	<b>Level 3</b> <b>\$</b>	<b>Total</b> <b>\$</b>
Financial assets at fair value through profit or loss	18,963,341	508,900	-	19,472,241
<b>Total</b>	<b>18,63,341</b>	<b>508,900</b>	<b>-</b>	<b>19,472,241</b>

<b>Year ended 30 June 2017</b>	<b>Level 1</b> <b>\$</b>	<b>Level 2</b> <b>\$</b>	<b>Level 3</b> <b>\$</b>	<b>Total</b> <b>\$</b>
Financial assets at fair value through profit or loss	18,913,906	509,780	-	19,423,686
<b>Total</b>	<b>18,913,906</b>	<b>509,780</b>	<b>-</b>	<b>19,423,686</b>

Included within Level 1 of the hierarchy are listed investments. The fair values of these financial assets have been based on the closing quoted bid prices at reporting date, excluding transaction costs.

In valuing the unlisted investment, included in Level 2 of the hierarchy, valuation techniques including valuation of the security by banks and brokers has been adopted to determine the fair value for this investment.

**Defaults and breaches**

There were no defaults or breaches of financial liabilities during the year.

**AUSTRALIAN ENHANCED INCOME FUND**  
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**3. REVENUE FROM ORDINARY ACTIVITIES**

**(a) Revenue**

	<b>June 2018</b>	<b>June 2017</b>
	<b>\$</b>	<b>\$</b>
Dividends and distributions	591,777	491,665
Interest	278,089	370,445
Other income	3,493	8,729
<b>Total Revenue</b>	<b><u>873,359</u></b>	<b><u>871,139</u></b>

**(b) Net gain/(loss) on financial assets held at fair value through profit or loss**

	<b>June 2018</b>	<b>June 2017</b>
	<b>\$</b>	<b>\$</b>
Realised (loss)/gain on financial assets held at fair value through profit or loss	(6,807)	203,796
Unrealised gain on financial assets held at fair value through profit or loss	88,892	1,129,912
<b>Total gain/(loss) on financial assets held at fair value through profit or loss</b>	<b><u>82,085</u></b>	<b><u>1,333,708</u></b>

**4. AUDITORS REMUNERATION**

Remuneration of the auditor of the Fund for:

	<b>June 2018</b>	<b>June 2017</b>
	<b>\$</b>	<b>\$</b>
Auditing or reviewing the financial report by BDO	30,443	28,823
	<b><u>30,443</u></b>	<b><u>28,823</u></b>

No non-audit services were provided to the Fund by BDO East Coast Partnership for the year ended 30 June 2018 (2017: Nil)

**AUSTRALIAN ENHANCED INCOME FUND**  
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**5. TRADE AND OTHER RECEIVABLES**

	<b>June 2018</b>	<b>June 2017</b>
	<b>\$</b>	<b>\$</b>
Other receivables	<u>230,077</u>	<u>37,111</u>
	<b><u>230,077</u></b>	<b><u>37,111</u></b>

Trade debtors relate to outstanding settlements and income receivables, and are on the terms operating in the securities industry. Settlements are made within three days of the date of a transaction. Income receivable relates to accrued income and are non-interest bearing and unsecured.

No trade or other receivables owed were past the due date and no allowances for impairment are required.

**6. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

**Movements in the number of units and net assets attributable to unitholders during the period were as follows;**

As stipulated in the Fund Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

**Net assets attributable to unitholders**

	<b>June 2018 No.</b>	<b>June 2018 \$</b>
Opening balance	3,286,311	19,879,021
Applications	89,626	549,038
Redemptions	(69,299)	(410,638)
Profit attributable to unitholders before income tax	-	665,202
Distributions paid and payable	-	(1,172,937)
Closing balance	<b><u>3,306,638</u></b>	<b><u>19,509,686</u></b>

	<b>June 2017 No.</b>	<b>June 2017 \$</b>
Opening balance	3,223,824	18,688,033
Applications	143,209	869,348
Redemptions	(80,722)	(486,757)
Loss attributable to unitholders before income tax	-	1,951,234
Distributions paid and payable	-	(1,142,837)
Closing balance	<b><u>3,286,311</u></b>	<b><u>19,879,021</u></b>

**AUSTRALIAN ENHANCED INCOME FUND**  
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**6. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (CONTINUED)**

The following rights and benefits are attached to the units on issue:

**Distributions**

The Fund intends to distribute all its taxable profits each year to unitholders. The Fund has distributed more than its taxable income for the past two years.

**Redemptions**

The manager offers redemption of units on 12 dates during the year. Units can only be redeemed at the exit price.

**Winding up**

After paying or making allowances for anticipated liabilities, subject to the rights and obligations attaching to any class, the net proceeds must be distributed pro rata to investors according to the number of units they hold at termination.

**7. DISTRIBUTIONS TO UNITHOLDERS**

Distributions paid or payable by the Fund for the year ended 30 June 2018	Cents per unit	Total amount \$	Date of payment
	0.0875	293,112	16/10/17
	0.0875	295,247	15/1/18
	0.0875	295,246	16/4/18
	0.0875	289,332	16/7/18
	<u>0.35</u>	<u>1,172,937</u>	

Distributions paid or payable by the Fund for the year ended 30 June 2017	Cents per unit	Total amount \$	Date of payment
	0.0875	282,444	17/10/16
	0.0875	283,245	16/1/17
	0.0875	289,595	18/4/17
	0.0875	287,552	17/7/17
	<u>0.35</u>	<u>1,142,836</u>	

**AUSTRALIAN ENHANCED INCOME FUND**  
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**7. DISTRIBUTIONS TO UNITHOLDERS (CONT)**

Under the Income Tax Assessment Act 1997, the Fund is not subject to income tax, provided the net income including assessable capital gains (if any) is fully distributed to unitholders. No liability has been provided for income tax as it is unlikely that any taxable income will be retained by the Fund.

In accordance with the Trust Deed and applicable tax legislation, the Fund fully distributes by cash or reinvestment, distributable income to unitholders. Realized capital losses are not distributed to unitholders but are retained in the Fund to be offset against any future realized capital gains.

The benefits of imputation credits and foreign taxes paid (if any) are passed to the unitholders. A Distribution Reinvestment Plan is available to unitholders. Details are available at [www.eiml.com.au](http://www.eiml.com.au)

**8. CASH AND CASH EQUIVALENTS**

Cash as at the end of the financial year is as follows:

	<b>June 2018 \$</b>	<b>June 2017 \$</b>
Cash at bank and on hand	<u>322,001</u>	<u>1,133,325</u>

The weighted average interest rate for cash securities as at 30 June 2018 is 0.9% (30 June 2017 0.6%).

**9. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>June 2018 \$</b>	<b>June 2017 \$</b>
Listed investments	<u>19,472,241</u>	<u>19,423,687</u>

The listed investments are debt or debt like securities with known or calculable coupons and interest payments and fixed or calculable redemption amounts.

**10. TRADE AND OTHER PAYABLES**

	<b>June 2018 \$</b>	<b>June 2017 \$</b>
Trade and other payables	81,908	318,600
Amounts owed to related entities	<u>143,393</u>	<u>108,948</u>
	<u>225,301</u>	<u>427,548</u>

Trade creditors relate to outstanding settlements, and are on the terms operating in the securities industry. There require settlement within three (3) days of the date of the transaction. Sundry creditors are settled within the terms of payment offered. No interest is applicable on these accounts.

**AUSTRALIAN ENHANCED INCOME FUND**  
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**11. RELATED PARTY TRANSACTIONS**

**Responsible Entity**

The responsible entity for the Australian Enhanced Income Fund and ultimate controlling party is Elstree Investment Management Limited.

**Responsible Entity's/Managers fees and other transactions**

In accordance with the Constitution, fees for the Fund were a management fee of 0.85% on the net value of assets.

The Fund pays the expenses of the operation of the Fund, including but not limited to listing expenses, audit and other accounting fees, and registry expenses

The Management fee paid to the Fund for the year ended 30 June 2018 was \$158,311 (year ended 30 June 2017: \$156,543). At year end the Fund had an accrued liability for Management Fees of \$42,156 (year ended 30 June 2017: \$43,058) and other amounts payables of \$143,393 (year ended 30 June 2017: \$108,948).

**12. KEY MANAGEMENT PERSONNEL COMPENSATION**

The names and position held of the Company's key management personnel (including Directors) in office at any time during the financial year are:

C.E. Dawson	Chairman
N.S. Derham	Director & Company Secretary
J. Abbott	Director

**a) Remuneration**

There are no executives that are paid by the Fund. Elstree Investment Management Limited, the investment manager of the Fund, remunerates Campbell Dawson, Norman Derham and John Abbott as employees and/or directors of the Company. The Manager also provides day to day management of the Fund and is remunerated as outlined in the Directors' Report.

No fees have been paid directly by the Fund to the Directors of the Responsible Entity.

**AUSTRALIAN ENHANCED INCOME FUND**  
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**13. CASH FLOW INFORMATION**

**Reconciliation of profit attributable to unitholders to cashflows from operating activities**

	<b>June 2018 \$</b>	<b>June 2017 \$</b>
Net profit	665,202	1,951,234
Net (profit)/loss on financial instruments held at fair value through profit or loss	(82,085)	(1,333,708)
Proceeds from sale of financial instruments held at fair value through profit or loss	9,618,680	16,615,709
Purchases of financial instruments held at fair value through profit or loss	(9,894,885)	(16,569,322)
(Decrease)/increase in other receivables	(19,993)	18,701
(Decrease)/increase in other payables	(70,776)	120,423
<b>Net cash provided by operating activities</b>	<b><u>216,143</u></b>	<b><u>803,037</u></b>

**14. SEGMENT INFORMATION**

Australian Enhanced Income Fund is a registered managed investment scheme, incorporated and domiciled in Australia. The Fund's principal activity is investment management, conducted primarily in Australia.

**15. CONTINGENT ASSETS AND LIABILITIES**

There were no contingent assets or liabilities at 30 June 2018. (30 June 2017: nil)

**16. COMMITMENTS FOR EXPENDITURE**

There were no commitments for expenditure at 30 June 2018. (30 June 2017: nil)



**AUSTRALIAN ENHANCED INCOME FUND**  
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**17. EVENTS OCCURRING AFTER THE REPORTING DATE**

No significant events have occurred since reporting date which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2018 or on the results and cash flows of the Fund for the period ended on that date.

**18. CAPITAL MANAGEMENT**

The capital of the Fund was managed by the responsible entity according to the PDS and Constitution. The capital managed includes unit holder funds and any borrowings that the Fund may have. The Fund will use a prudent level of leverage. Currently, maximum leverage is expected to be 20%. The Fund used no leverage in the 2017/2018 financial year

The gearing ratios of the Fund, the ratio of debt to investment assets are as follows:

	<b>June 2018</b>	<b>June 2017</b>
	<b>\$</b>	<b>\$</b>
Net unit holder funds	19,509,687	19,879,023
Total capital	<u>19,509,687</u>	<u>19,879,023</u>
Gearing ratio	0%	0%

**19. EARNINGS PER UNIT**

	<b>June 2018</b>	<b>June 2017</b>
	<b>\$</b>	<b>\$</b>
Net Profit used in calculations of basic earnings per unit	665,202	1,951,234
Weighted average number of units outstanding during the year used in the calculation of basic earnings per unit	3,348,429	3,253,857
Weighted average number of units outstanding during the year used in the calculation of diluted earnings per unit	3,348,429	3,253,857

**20. INVESTMENT DISCLOSURES**

During the period the Fund purchased and sold securities to the value of \$19,547,946 (2017: \$32,929,186). The Fund paid brokerage of \$8,360 (2017: \$14,782).

**AUSTRALIAN ENHANCED INCOME FUND**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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**20. INVESTMENT DISCLOSURES (CONTINUED)**

The Fund securities holdings as at 30 June 2018 were as follows:

AGL Sub notes(AGLHA)	411,086
AMP Capital Notes(AMPPA)	414,258
ANZ Cap Notes 4(ANZPG)	300,361
ANZ Capital Note 2(ANZPE)	751,956
ANZ Capital Notes(ANZPD)	100,307
Australian Unity Bonds B(AYUHB)	46,466
Bendigo & Adel Bk CPS2(BENPE)	689,956
BOQ Capital Notes(BOQPE)	176,115
CBA PERLS IX(CBAPF)	805,116
CBA PERLS VII(CBAPD)	1,603,719
CBA PERLS VIII(CBAPE)	930,666
Challenger Cap Notes(CGFPFA)	477,804
Challenger Notes 2(CGFPB)	519,786
Crown Sub Notes II(CWNHB)	928,269
CVC Conv Note	452,250
IAG Capital Notes(IAGPD)	924,969
IAG SUB 6/24 2.10 over	508,900
Macquarie Income Securities(MBLHB)	553,905
Multiplex Sites(MXUPA)	284,491
NAB Cap Note 3(NABPD)	664,020
NAB Capital Notes(NABPC)	478,216
NAB CPSII(NABPB)	517,643
NAB Income Securities(NABHA)	1,991,840
Nufarm Step Up Securities(NFNG)	343,988
Qube Sub Notes(QUBHA)	528,000
Ramsay Health CARES(RHCPA)	273,359
Suncorp Capital Notes(SUNPF)	717,932
Suncorp CPS3 (SUNPE)	256,592
WBC Cap Note 3(WBCPF)	616,771
Westpac Cap Notes 4(WBCPG)	1,114,703
Westpac Conv Cap Note II(WBCPE)	915,658
Westpac Conv Cap Note(WBCPD)	70,389
Whitefield CRPS(WHFPB)	102,750

## DIRECTORS DECLARATION

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors



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Campbell Dawson  
Director

28 August 2018

Sydney

## INDEPENDENT AUDITOR'S REPORT

To the members of Australian Enhanced Income Fund

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Australian Enhanced Income Fund (the Fund), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and a declaration by the directors of the Responsible Entity (the directors).

In our opinion the accompanying financial report of Australian Enhanced Income Fund, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### *Carrying amount of financial assets held at fair value through profit or loss*

As at 30 June 2018 the Fund held financial assets of \$19,472,241, consisting of listed debt or debt-like securities as disclosed in Note 9. Our focus in relation to this matter was to consider whether the financial assets were carried at fair value. Due to the significant balance this was considered to be of most significance to the audit and therefore determined to be a key audit matter.

To determine whether the carrying amount of financial assets held at fair value through profit or loss was appropriate at reporting date we undertook, amongst others, the following audit procedures:

- For each security we agreed the number of units held to information provided directly by the custodian; and
- Agreed market value to publicly available information on the Australian Stock Exchange; and
- Recalculated the carrying value and compared to the custodian valuation report

### **Other information**

The directors are responsible for the other information. The other information comprises the information in the Fund's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the directors for the Financial Report**

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.



A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf)

This description forms part of our auditor's report.

## **Report on the Remuneration Report**

### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in the Directors of the Responsible Entity Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Australian Enhanced Income Fund, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

### **Responsibilities**

The directors are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO East Coast Partnership**

BDO

A handwritten signature in blue ink that reads 'Kieran Gould'.

Kieran Gould  
Partner

Sydney, 28 August 2018

**AUSTRALIAN ENHANCED INCOME FUND**  
**ARSN 115 632 990**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Unit holder Information**

**Distribution**

The following unit holder information was applicable as at 24 August 2018

<b>Distribution of Holdings</b>	<b>No of units</b>
1-1000	48,387
1,001 – 5,000	572,298
5,001 – 10,000	650,404
10,001 – 100,000	1,293,920
100,001 and greater	741,629
<b>Total</b>	<b>3,306,638</b>

**Top 20 unitholders**

The details of the top 20 unitholders as at 24 August 2018 are detailed below

<b>Unit Holder</b>	<b>No of units held</b>	<b>Percent</b>
J P MORGAN NOMINEES AUSTRALIA LIMITED	741,629	22.43
MRS MARITA TOOHER	93,272	2.82
MR MICHAEL COFFIN <BLUE SKY S/F A/C>	57,027	1.72
MR ADRIAN TODD	47,893	1.45
MR GEOFFREY PHILIP REYNOLDS + MRS SUZANNE RUTH REYNOLDS <REYNOLDS FAMILY SUPER A/C>	47,333	1.43
MR CAMPBELL DAWSON <SPAGHETTI HEAD SUPER FUND AC>	40,238	1.22
SYDNEY EISTEDDFOD	35,762	1.08
MR ALASDAIR BRIAN WEST + MR DAVID JAMES HUGHES <EST FRG STRICKLAND A/C>	31,096	0.94
J P MORGAN NOMINEES AUSTRALIA LIMITED	30,400	0.92
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	30,000	0.91
MR MALCOLM JOHN MATTHEWS + MR PETER TIMOTHY HEINZ + MR SIMON JAMES COGHLAN <BECKWORTH A/C>	30,000	0.91
JAYTU PTY LTD <J W GARDNER SUPER FUND A/C>	25,964	0.79
MR JUSTIN PATRICK LYNCH + MRS PAULA LEVENA LYNCH <LYNCH FAMILY S/F NO 2 A/C>	24,962	0.75
MR EDWARD SHANN <SHANN SUPER FUND A/C>	24,586	0.74
LILAC CLOSE PTY LTD <SUSIE SCARLETT SUPERFUND A/C>	23,115	0.7
MISS ALEXANDRA LISA SCHULTZ <ROCKPOOL A/C>	22,542	0.68
BOND STREET CUSTODIANS LIMITED <DSK - RB0344 A/C>	20,439	0.62
MR WILLIAM ANTHONY BURKE & MRS SHIRLEY JEAN BURKE	20,305	0.61
HGBSF PTY LTD <HG & B SUPER FUND A/C>	20,000	0.6
DR NOEL BERNARD BAYLEY + MRS YVONNE DOROTHY BAYLEY <NOEL BAYLEY SUPER FUND A/C>	19,849	0.6

**Substantial Holders**

<b>Unit Holder</b>	<b>No of units held</b>	<b>Percent</b>
FIRST SAMUEL LIMITED	763,989	23.1%

The unit registry provider is:  
Advanced Share Registries Ltd  
110 Stirling Highway  
Nedlands, WA 6009