



Australian Enhanced Income Fund April 2014 Investment Update and NAV

April 2014 NAV and Fund performance

The Fund's NAV at the close of business on April 30, 2014 was **\$6.478** per unit. This compares with the ex-distribution NAV of a unit at the close of business on March 31, 2014 of \$6.432. The change in NAV over the month of April 2014 represents a return of **0.72%**. The franking benefit for April was estimated to 0.00% (**zero**).

ASX trading details

The Fund traded on market at the ASX at a slight discount to the most recently published NAV of a unit over the month of April 2014. The volume weighted average price (VWAP) for April 2014 was **\$6.37**.

	1 month	3 months	12 months*
Australian Enhanced Income Fund	0.72%	2.19%	6.94%
UBSA Bank Bill Index	0.22%	0.65%	2.73%

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

Events of April

- The ASX listed hybrid sector returned 0.53% for the month. This compares with the All Ordinaries Accumulation Index return of 1.29% and the UBSA Bank Bill Index return of 0.22%.
- ANZ's latest hybrid listed at a 0.85% premium. While this is a good outcome you would have been better off purchasing the broader market on the book build date. Buying issues in the primary market continues to be a less than optimal strategy for investors.

Fund performance

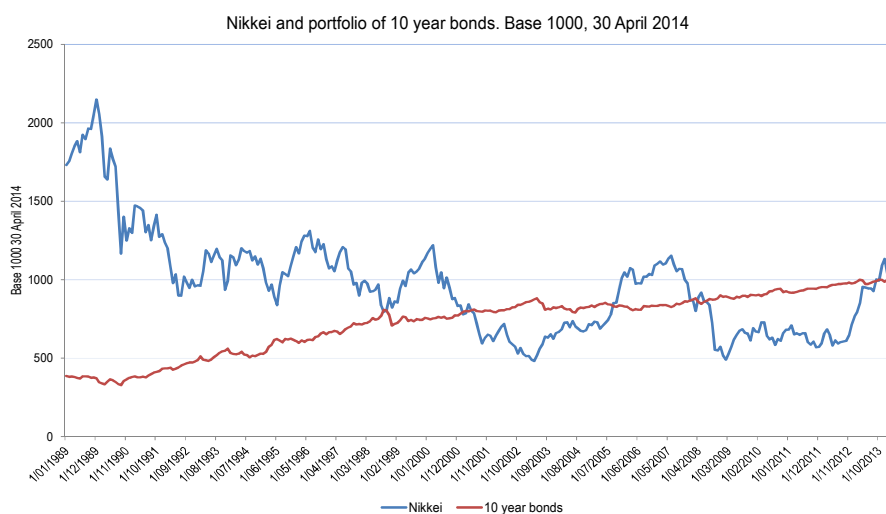
The Fund out-performed the broader market this month. The Fund's net return (excluding the benefit of franking but after fees) for the year to end 30 April 2014 increased to 6.94% from 6.84% previously.

Secular stagnation

Former US Treasury secretary Larry Summers has resurrected one of Keynes' economic theories and called it "secular stagnation". A simplistic explanation of secular stagnation is that an economy has overinvested and because of the overinvestment, current investment and future investment expectations decline such that they are insufficient to sustain economic growth at levels that we are used to seeing. Hence the 'stagnation' while the 'secular' refers simply to the lack of cyclicality.

Excess savings over investment

As an example of secular stagnation we cannot help but refer to Japan where savings have exceeded investment since the early 1990s. Without commenting on cause or effect economic growth has been slow enough that Japan has been in recession for about 30% of that time. Banks are awash with deposits and bond rates have been below 4% since 1995. In the chart overleaf, we show the returns from the Nikkei and the return from a portfolio of 10 year JGB's. The end is base 1000 (30 April 2014). The way to read the chart is that at any point in time on either the Nikkei or JGB (10 year bond) line that is the amount you need to invest to have 1000 at 30 April 2014.



How do I interpret that?

Depending on your view the ‘takeaways’ from the chart are (i) equities have been a much better investment since 2008 than buying 10 year bonds at 1% and (ii) it was a lost 13 years for equities from 2001 to 2014. It should be noted that the period of less than appalling Nikkei performance occurred in the context of a relatively cheap equity market. In 2003 equity yields were around 3.5% compared to the 10 year JGB yield of 1.3%. Investors were finally getting paid to hold risky equities. Even though the returns outpaced bond yields, they occurred with extreme volatility. The decimation of the equity market that occurred in the previous 14 years occurred as equities were rerated from trading at high PE’s to lower PE’s than bonds.

Issued capital and NAV as at close of business 30 April 2014

	30 April 2014	Previous month	Monthly change	Change over Quarter
Total number of ordinary units	2,219,124	2,216,477	+2,647	(53,507)
Net Asset Value (NAV)	\$6.478	#\$6.432	+0.72%	+2.19%

• Returns exclude the franking benefit. Past performance is not necessarily a guide to future performance. # Ex-distribution.

Performance History

	Dec 2103	Jan 2014	Feb 2014	March 2014	April 2014
Change in NAV	+0.93%	+0.36%	+0.67%	+0.79%	+0.72%
Change in UBSA Bank Bill Index	+0.23%	+0.21%	+0.20%	+0.22%	+0.22%
Comparison to Bank Bill Index	+0.70%	+0.15%	+0.47%	+0.57%	+0.50%
Franking benefit (estimated)	+0.04%	Zero	+0.14%	+0.10%	Zero
Total Return including franking	+0.97%	+0.36%	+0.81%	+0.89%	+0.72%

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.