

## Australian Enhanced Income Fund

### March 2015 Investment Update and NAV

#### *March 2015 NAV and Fund performance*

The Fund's NAV at the close of business on March 31, 2015 was **\$6.404** per unit. This compares with the NAV of a unit at the close of business on February 27 of \$6.426. The change in NAV over the month of March represents a return of **-0.34%**. The franking benefit for March was estimated to be 0.19%. After the payment of the \$0.10 cent per unit cash distribution due to unit holders registered at the close of business on 31 March the ex-distribution NAV was **\$6.304**.

#### *ASX trading details*

The Fund traded on market at a small discount to the most recently published NAV of a unit over the month of March 2015. The volume weighted average price (VWAP) for March 2014 was **\$6.38**.

	1 month	3 months	12 months*
Australian Enhanced Income Fund	-0.34%	0.36%	4.28%
UBSA Bank Bill Index	0.21%	0.67%	2.72%

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

#### *Events of March*

- The ASX listed hybrid sector returned 0.33% for the month. This compares with the All Ordinaries Accumulation Index return of (0.03%) and the UBSA Bank Bill Index return of 0.21%.

#### *Fund performance*

The Fund under-performed the broader market this month. The Fund's net return (excluding the benefit of franking but after fees) for the year to end 31 March 2015 decreased to 4.28% from 5.47% previously.

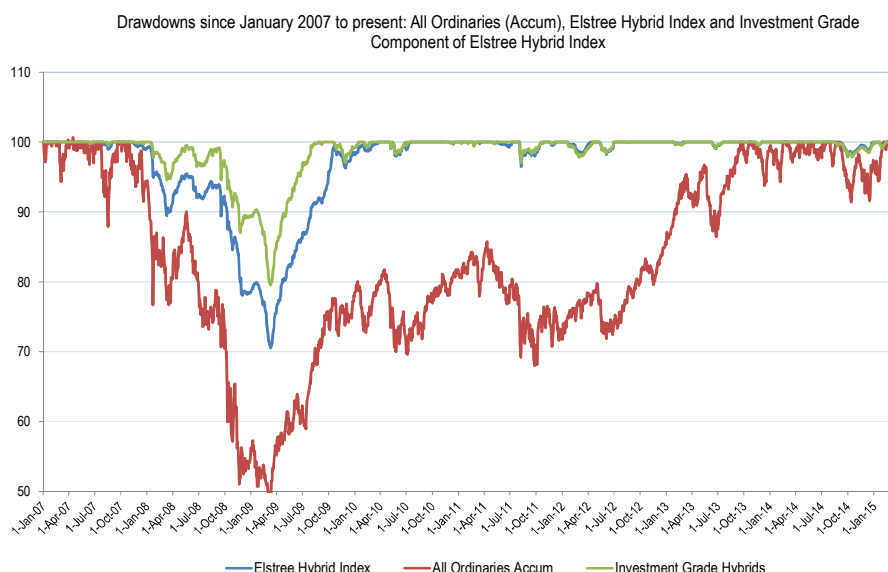
#### *Hybrid Market risk*

One of the most frustrating and vexing comments we continually hear about the hybrid market is that it is as 'risky as equities'. One way of illustrating 'risk' is to measure the extent of drawdowns. A drawdown is when the value of an investment falls below previous highs. The graph overleaf details the drawdowns experienced since January 2007 by the hybrid market as a whole as denoted by the Elstree Hybrid Index (blue line), the investment grade component of the Elstree Hybrid Index (green line) and the All Ordinaries Accumulation Index (red line). When the line is at 100, the indices are reaching new highs, and when the line is below 100, it indicates the fall from previous high. It also highlights the time taken (duration) by each of the indices to reach new highs again. If you are risk averse you want your drawdowns to be short in duration and shallow in depth (like both the Elstree Hybrid Index and the investment grade component of the Elstree Hybrid Index in the post GFC period).

April 14, 2015



*What does the chart tell us?*



The worst drawdown occurred during the GFC. The investment grade component of the Elstree Hybrid Index fell 20% compared to the equity market's fall of 50% while the broader Elstree Hybrid Index, which comprised 35% non-investment grade issuers (it is now 5%), fell by around 30%. The correlation to equities increased materially during the GFC but has been virtually non-existent or immaterial in any other equity market drawdown since the GFC.

#### *Issued capital and NAV as at close of business 31 March 2015*

	31 March 2015	Previous month	Monthly change	Change over Quarter
Total number of ordinary units	2,879,718	2,529,398	350,320	612,220
Net Asset Value (NAV)	\$6.304#	\$6.426	-0.34%	+0.36%

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

#### *Performance History*

	Nov 2014	Dec 2014	Jan 2015	Feb 2015	March 2015
Change in NAV	+0.37%	+0.37%	-0.22%	+0.93%	-0.34%
Change in UBSA Bank Bill Index	+0.21%	+0.25%	+0.25%	+0.21%	0.21%
Comparison to Bank Bill Index	+0.16%	+0.12%	-0.47%	+0.72%	-0.55%
Franking benefit ( <i>estimated</i> )	+0.08%	+0.08%	0.00%	+0.14%	0.19%
Total Return including franking	+0.45%	0.45%	-0.22%	+1.07%	-0.15%

For additional information please contact **Norman Derham** at Elstree Investment Management Limited on (03) 8689 1348 or by email [info@eiml.com.au](mailto: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