

Australian Enhanced Income Fund

April 2015 Investment Update and NAV

April 2015 NAV and Fund performance

The Fund's NAV at the close of business on April 30, 2015 was **\$6.319** per unit. This compares with the ex-distribution NAV of a unit at the close of business on March 31 of \$6.304. The change in NAV over the month of April represents a return of **0.24%**. The franking benefit for April was estimated to be 0.02%.

ASX trading details

The Fund traded on market at a premium to the most recently published NAV of a unit over the month of April 2015. The volume weighted average price (VWAP) for April 2014 was **\$6.35**.

	1 month	3 months	12 months*
Australian Enhanced Income Fund	0.24%	0.82%	3.80%
UBSA Bank Bill Index	0.18%	0.60%	2.67%

*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 0.29% for the month. This compares with the All Ordinaries Accumulation Index return of (1.47%) and the UBSA Bank Bill Index return of 0.18%.

Fund performance

The Fund performed in line with the broader market this month. The Fund's net return on an annual basis (excluding the benefit of franking but after fees) for the rolling 3 year period to end 30 April 2015 decreased to 6.42% from 6.61% previously.

Risk weighting: What does it mean?

We couldn't let the recent sell down of bank shares prices pass without comment. The sell down is the direct result of the expectation that the banks will be required by the banking regulator to raise more equity capital. This stems from the consideration by the regulator that the risk weighting applied by the banks to their housing loan portfolios is too low and needs to be raised. The Murray Review identified the issue and now it looks as though it will be enacted. The expectation is that the risk weighting applied to housing will rise from about 18% to a minimum of 25%. We don't have an issue with the banks raising more equity capital as it makes hybrid capital simply more default and conversion remote than it was previously.

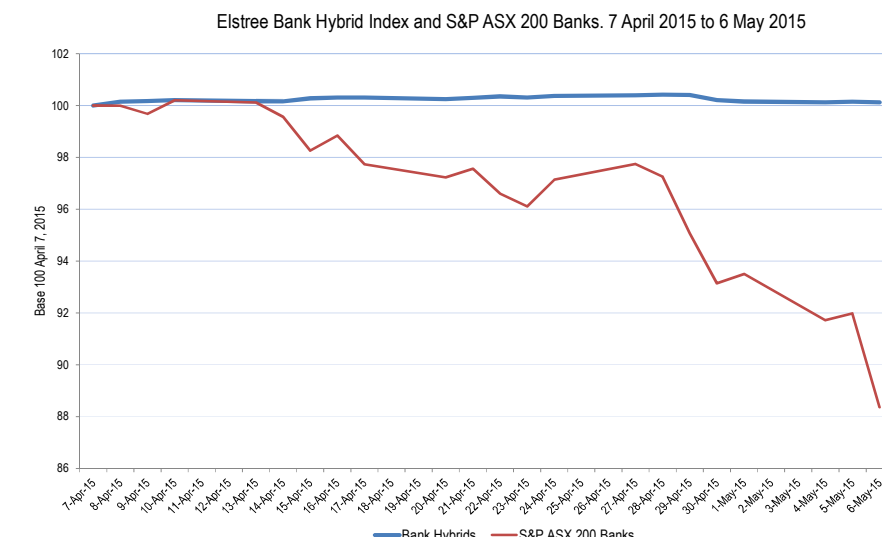
While bank shares have sold off heavily bank hybrids remain little changed.

While the equity capital expected to be raised will not be material – it is about half of the annual profit of the banks - it will be dilutionary and this is why bank shares have sold off so heavily over the last month or so. The interesting thing from our perspective and the perspective of our unit holders is that the banking sub sector of the Elstree Hybrid Index has not sold off at all. The chart overleaf details trading in the bank share sub sector of the ASX 200 and the bank sub sector of the Elstree Hybrid Index from April 7 to May 6. While we could comment about the outcome we will simply let the chart do the talking.

May 14, 2015



A final word



One of the interesting aspect of the hybrid market which we thinks illustrates its cheapness is that the market is currently priced for a sell off. The drawdown of the banking sub sector during the GFC was 16% which is represented by trading margins widening from 1.10% (110 basis points) to 5.99% (599 bps) over bbsw. Currently trading margins are 3.4% (340 bps). An increase in trading margin to 5.99% from 3.4% represents a 9% drawdown. This compares with current bank share drawdown of 12%. If the banking sub sector of the hybrid market were to sell off 16% (same as the GFC) margins would need to increase to an unprecedented 7.5% (750 bps) over bbsw.

Issued capital and NAV as at close of business 30 April 2015

	30 April 2015	Previous month	Monthly change	Change over Quarter
Total number of ordinary units	2,882,753	2,879,718	3,035	612,214
Net Asset Value (NAV)	\$6.319	\$6.304#	+0.24%	+0.82%

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

Performance History

	Dec 2014	Jan 2015	Feb 2015	March 2015	April 2015
Change in NAV	+0.37%	-0.22%	+0.93%	-0.34%	+0.24%
Change in UBSA Bank Bill Index	+0.25%	+0.25%	+0.21%	+0.21%	+0.18%
Comparison to Bank Bill Index	+0.12%	-0.47%	+0.72%	-0.55%	+0.06%
Franking benefit (estimated)	+0.08%	0.00%	+0.14%	+0.19%	+0.02%
Total Return including franking	0.45%	-0.22%	+1.07%	-0.15%	+0.26%

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