

Australian Enhanced Income Fund - ASX Code "AYF"

April 2019 Investment Update and NAV

April 2019 NAV and Fund performance

The Fund's NAV of a unit at the close of business on April 30, 2019 was **\$5.913** per unit. This compares with the Fund's ex-distribution NAV of a unit at the close of business on 29 March 2019 of \$5.8925. The change in NAV over the month of April represents a return of **0.35%**. The franking benefit for April 2019 was estimated to be **0.02%**.

Performance	1 month	3 months	12 months	3 Year p.a.
Australian Enhanced Income Fund*	0.35%	1.86%	5.86%	6.30%
UBS(A) Bank Bill Index	0.16%	0.50%	2.02%	1.88%

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

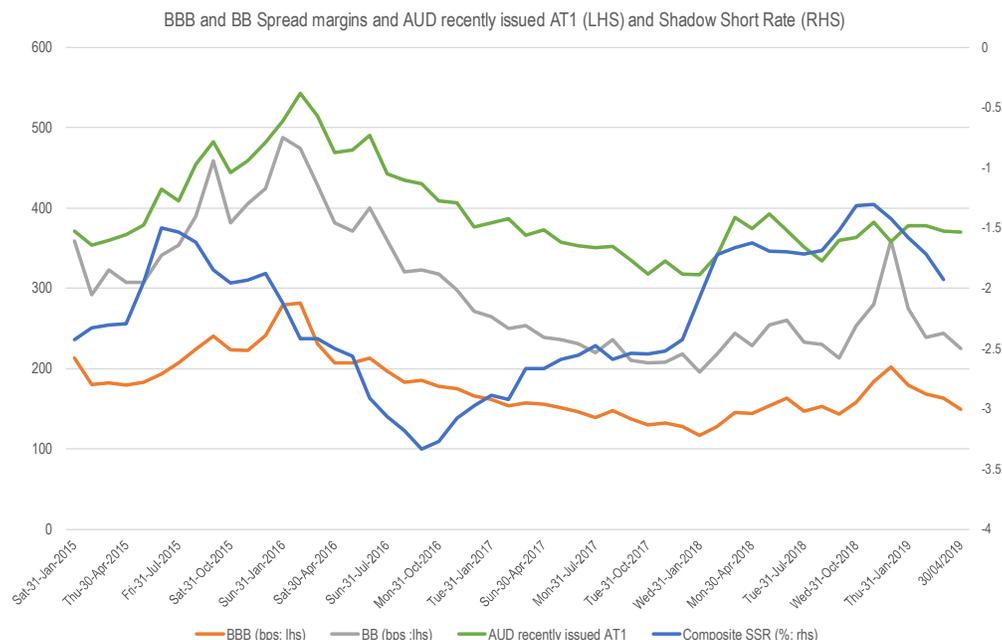
Relative performance

Including the value of franking the ASX listed hybrid market returned 0.51% for the month. This compares with the All Ordinaries Accumulation Index return of 2.54% and the UBSA Bank Bill Index return of 0.16%.

After fees but before the value of franking, the Fund underperformed the broader market this month. Over 3 years the Fund's rolling annual net return, which excludes the benefit of franking but is net of all fees, for the period ending 30 April 2019 was 6.30% p.a.

The degree of monetary policy tightness and the performance of credit assets.

With much of the financial discussion in recent weeks being about the change of direction of the US Federal Reserve we thought we would revisit something quite dear to us as investors in assets linked to a floating benchmark rate aligned closely with the cash rate – we are of course referring to the Shadow Short Rate of SSR. The Shadow Short Rate, dreamt up by the RBNZ, attempts to measure the degree of monetary tightness in a world dominated by zero percent cash rates. The Shadow Short Rate (excluding China) is estimated currently to be around -2.00% (it includes, of course, the degree of monetary policy looseness attributed to such things as quantitative easing). An SSR of -2.00% suggests that global monetary policy is loose and accommodating. This is deemed by investors in risk assets such as equities and credit assets to have a positive influencing on pricing. And, so it has with most global equity markets bouncing strongly from the late December to make in some cases) new all-time post GFC highs. And similarly, with credit markets as expressed by the spread margin earned over risk-free rates. As detailed in the chart overleaf both sub investment grade (as depicted by "BB") and investment grade spread margins have contracted sharply since earlier this year. The contraction, you will note coincides with a fall in the Shadow Short Rate. However, as the chart overleaf clearly shows, there is a laggard.



- Bank capital instruments (AUD AT1 hybrids) have lagged the improvement in other markets and given the absence of red flags in bank credit (as opposed to bank share prices), we can't see any reason why the spread margin contraction of 'like' credit markets won't be mirrored sooner rather than later by the AUD AT1 hybrid market.
- Finally, investment commentary is random and investors should be wary of headlines. And it can all change in an instant. In March we received 4 emails a day about yield curve inversion and recessions. This month, by contrast, we didn't receive any!

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

	March 2019	April 2019
Net Asset Value (NAV) # Ex-distribution.	\$5.8925#	\$5.913
Change in NAV month on previous month (mopm)*	1.08%	0.35%
Total investment return includes the value of franking (mopm)	1.37%	0.37%
Dividend paid 15 April 2019	\$0.0875	n/a
Percent franked (quarterly estimate @ 30% tax rate)	44.42%	n/a
Ex-distribution cash yield per annum (basis NAV)	5.94%	5.92%
Ex-distribution grossed up yield basis NAV per annum (estimated)	6.79%	6.77%
Investment grade issuer (including cash)	91.0%	91.0%
Fund average term	3.60 years	3.50 years
Major Bank Tier 1 exposure	57.0%	55.0%
Property exposure	1.90%	1.90%

* 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.