

Australian Enhanced Income Fund - ASX Code "AYF"

January 2019 Investment Update and NAV

January 2019 NAV and Fund performance

The Fund's NAV of a unit at the close of business on January 31, 2019 was **\$5.891** per unit. This compares with the Fund's ex-distribution NAV of a unit at the close of business on 31 December 2018 of \$5.875. The change in NAV over the month of January represents a return of **0.28%**. The franking benefit for January 2018 was estimated to be **zero (0.00%)**.

Performance	1 month	3 months	12 months	3 Year p.a.
Australian Enhanced Income Fund*	0.28%	0.79%	2.57%	6.42%
UBS(A) Bank Bill Index	0.18%	0.49%	1.95%	1.90%

*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 0.61% for the month. This compares with the All Ordinaries Accumulation Index return of 3.99% and the UBSA Bank Bill Index return of 0.18%.

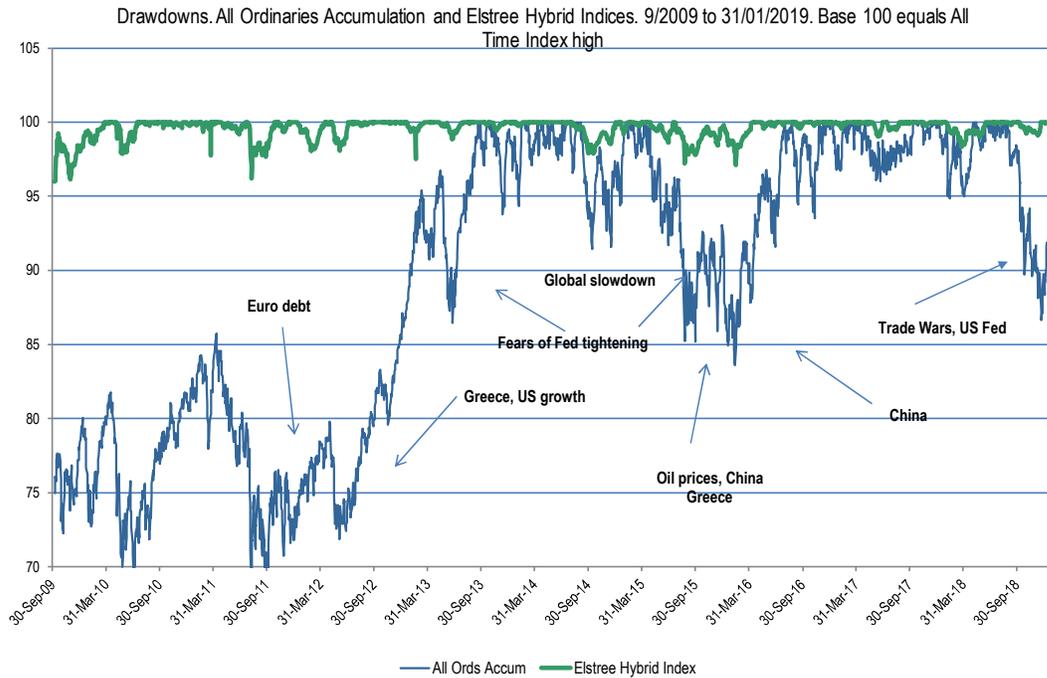
After fees but before the value of franking, the Fund under-performed the broader market this month. Over 3 years the Fund's rolling annual net return, which excludes the benefit of franking but is net of all fees, for the period ending 31 January 2019 was 6.42% p.a.

Making sense of the last 3 months.

If you were lost on a desert island and didn't know otherwise the 3 month return period ending 31 January 2019 looks like fairly benign period for both Australian equities and hybrid capital instruments. The broader Australian equity market, as represented by the All Ordinaries Accumulation Index, returned a modest 0.98% over the period while the hybrid market, as represented by the Elstree Hybrid Index returned 1.72%. The equity market return of 0.98% masks a period of extreme volatility, with the market producing a monthly return of c4% in January alone on the back of a recovery in the S&P500 in the US. We understand that if you were indeed clever enough to buy the market on December 31, 2018 you would have had a rewarding January returning 4% (annualised c48%). But who is that clever? Besides, you could avoid all the stress and angst that goes with trying to "time the market" and be able to sleep soundly at night if you had simply been invested over the period in a pool of hybrids. Hybrids are boring by comparison with equities. They aren't 'sexy', and they most certainly won't be the topic of conversation at a dinner party but their return outcomes over almost any reasonable timeframe are very similar to equities. We admit that a 3 month return period example is not a reasonable enough timeframe but if you compare the return outcomes over, say 10 years, the return outcomes are remarkably similar. The key takeaway is that hybrids achieve a similar return outcome but with 25% of the volatility of equities.

February 13, 2019

The other interesting aspect of a comparison of equities and hybrids is the magnitude of drawdowns. The chart below details the extent of equity and hybrid market drawdowns since the GFC's nadir in 2009. In a perfect world, what you want as an investor, is for drawdowns not be deep and long in duration. The chart says it all.



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

	December 2018	January 2019
Net Asset Value (NAV) # Ex-distribution.	\$5.8745#	\$5.891
Change in NAV month on previous month (mopm)*	0.93%	0.28%
Total investment return includes the value of franking (mopm)	1.13%	0.28%
Dividend paid 14 January 2019	\$0.0875	n/a
Percent franked (quarterly estimate @ 30% tax rate)	49.83%	n/a
Ex-distribution cash yield per annum (basis NAV)	5.96%	5.94%
Ex-distribution grossed up yield basis NAV per annum (estimated)	6.81%	6.79%
Investment grade issuer (including cash)	91.0%	90.0%
Fund average term	3.60 years	3.60 years
Major Bank Tier 1 exposure	56.2%	57.2%
Property exposure	1.8%	1.9%

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 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.