

August 7, 2017



Australian Enhanced Income Fund - ASX Code "AYF" July 2017 Investment Update and NAV

July 2017 NAV and Fund performance

The Fund's NAV of a unit at the close of business on July 31, 2017 was **\$6.10** per unit. This compares with the ex-distribution NAV of a unit at the close of business on 30 June of \$6.071. The change in NAV over the month of July represents a return of **0.49%**. The franking benefit for July was estimated to be **0.00% (zero)**.

Performance	1 month	3 months	12 months	5 Year p.a.
Australian Enhanced Income Fund*	0.49%	2.18%	9.48%	6.18%
UBS(A) Bank Bill Index	0.15%	0.44%	1.79%	2.49%

*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 credits the ASX listed hybrid sector returned 0.46% for the month. This compares with the All Ordinaries Accumulation Index return of 0.18% and the UBSA Bank Bill Index return of 0.15%.

After fees but before the value of franking, the Fund out-performed the broader market this month. The Fund's rolling annual net return, which excludes the benefit of franking but is net of all fees, for the 12 month period ending 31 July was 9.48%.

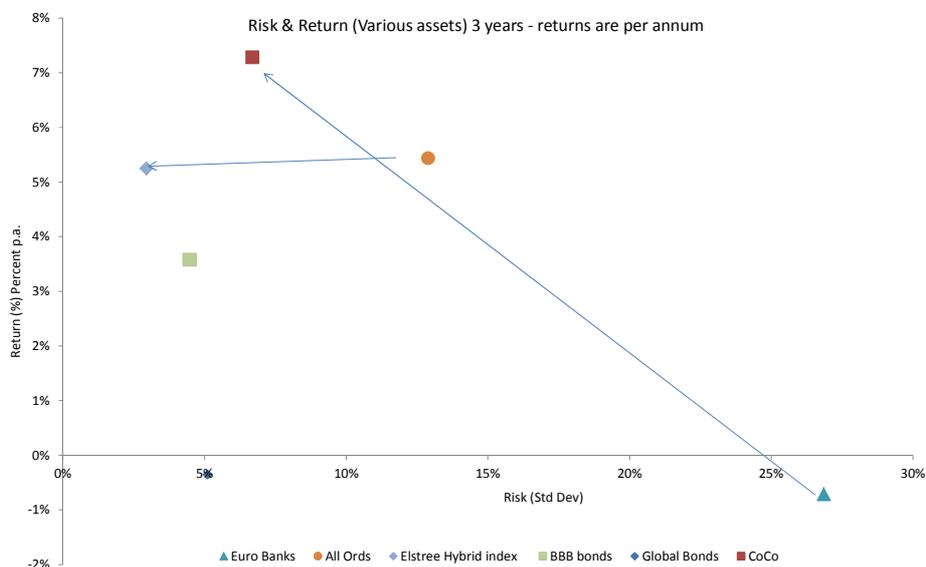
The performance of bank capital instruments

For those investors who don't closely monitor the performance of the non AUD banks and bank capital instruments, it's been an outstanding year. The European bank equity index returned an impressive 62% last financial year while the contingent convertibles or CoCo's (Euro based AT1 securities) returned 18% surpassing the excellent 11% return achieved by Australian bank hybrids. While the European bank equity index performed spectacularly well last financial year if you look at it over a longer term (say 3 years) the outcome is rather different.

The chart below shows the risk and return outcomes of the European bank, CoCo (Euro AT1), All Ordinaries Accumulation and Elstree Hybrid indices over the last 3 years. The arrows show the relationship between the Euro AT1 (red square) and the parent bank equity index (blue triangle) as well as the relationship between the All Ordinaries Accumulation Index (orange dot) and the Elstree Hybrid Index (blue angled square).

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Observations

CoCo's outperformed their equity brethren in both a return and risk sense over the period and while AUD hybrids performed in line with equities, hybrids achieved their return outcome with significantly less volatility. The driver of the excellent return from CoCo's and hybrids was the extraordinarily high income yield and the realisation that the European banks as a collective were in better shape than first thought. More interestingly from the portfolio perspective, it shows that equities and hybrid capital instruments, including CoCo's, are not all that highly correlated.

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

	June 2017	July 2017
Net Asset Value (NAV) - ex-distribution#.	\$6.071#	\$6.10
Change in NAV month on previous month (mopm)*	0.59%	0.49%
Total investment return includes the value of franking (mopm)	0.76%	0.49%
Dividend (declared July 2017 and payable 17 July 2017)	\$0.0875	n/a
Percent franked (quarterly estimate @ 30% tax rate)	40.45%	n/a
Ex-distribution cash yield per annum (basis NAV)	5.77%	5.74%
Ex-distribution grossed up yield basis NAV per annum (estimated)	6.59%	6.56%
Investment grade issuer (including cash)	90%	90%
Fund average term	4.3 years	4.5 years
Bank Tier 1 exposure	49%	50%
Property exposure	6%	6%

* 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.