April 11, 2017

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

March 2017 NAV and Fund performance

The Fund's NAV of a unit at the close of business on March 31, 2017 was $**6.103** per unit. This compares with the NAV of a unit at the close of business on 28 February of $6.051. The change in NAV over the month of March represents a return of **0.86%.** After the cash payment to unit holders registered at the close of business on 31 March 2017 of the $0.0875 cents per unit the Fund's NAV was **$6.0155.** The franking benefit for March was estimated to be **0.23**%.

Performance	1 month	3 months	12 months	3 Year p.a.
Australian Enhanced Income Fund*	0.86%	1.45%	10.75%	4.10%
UBS(A) Bank Bill Index	0.15%	0.44%	1.94%	2.30%

*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 1.01% for the month. This compares with the All Ordinaries Accumulation Index return of 3.16% and the UBSA Bank Bill Index return of 0.15%.

Fund performance

The Fund performed in-line with the 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 March 2017 was 10.75% from 10.78% previously.

Demand likely to exceed supply

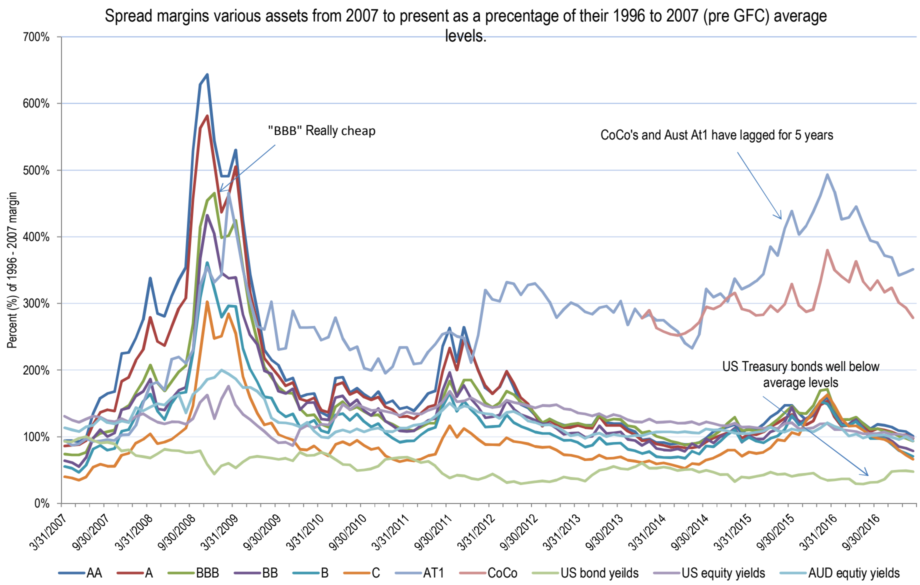
We have been saying for a while now we expect the listed hybrid market to continue to generate a total return above the income return due to an excess of demand over supply for the securities in which the Fund invests. Our optimism is driven by a number of factors that can be traced back, at its very heart, to demand from offshore investors for capital instruments issued by Australian banks. As a way of highlighting this, we note that the ANZ contingent convertible or CoCo issued in Europe last year is trading around 0.60% 'tighter' in spread margin terms (higher in price) than its ASX listed equivalent. Based on this alone it is likely there will be little AUD major bank hybrids issued on the ASX this year. We understand it is not that clear cut because there are other factors at play but clearly there is likely to be more downward pressure on spread margins (upward pressure on prices) than the other way around.

A way of highlighting just how relatively inexpensive CoCo's and hybrids are

The chart overleaf expresses just how relatively inexpensive CoCo's and Australian hybrids are. The chart details the spread margins on a whole raft of instruments with different credit ratings. The vertical axis represents the level, expressed as a percentage (%) of 1996 - 2007 average spread margin. It clearly shows the path of investor risk aversion since 2007. Bond and equity yields were around decade average levels in 2007 but then followed a different path while credit margins were around the average in 2007 before increasing dramatically during the GFC and then gradually falling back to average in the post GFC period. The clear outliers or laggards are the CoCo's and Australian hybrids.

Australian Enhanced Income Fund (ARSN: 115 632 990)
Responsible Entity: Elstree Investment Management Limited (ABN: 20 079 036 810)
Level 10, 30 Collins Street Melbourne VIC 3000
Telephone: 61 3 8689 1348
Email: info@eiml.com.au

April 11, 2017



Where too from here?

As a percentage, CoCo and hybrid spread margins are significantly higher than their average pre GFC levels. The reasons for not participating in the move to average levels are pretty clear: bank capital instruments entered a structurally riskier phase after the GFC due to issues relating to the level of capital, bad debts, regulation, GFC scars etc. However, it looks increasingly like we are at the end of the beginning (or the beginning of the end) of the GFC banking crisis. The banks are not undercapitalised and bad debts look like being less of an issue. This combined with the expensiveness of other credit instruments seem to be the catalysts for investors, particularly offshore investors, becoming increasingly interested in bank capital securities. We think this bodes extremely well for bank capital instruments issued by Australian banks.

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

	February 2017	**March 2017**
Net Asset Value (NAV) - ex-distribution#.	**$6.051**	**$6.0155#**
Change in NAV month on previous month (mopm)*	**0.10%**	**0.86%**
Total investment return includes the value of franking (mopm)	**0.15%**	**1.09%**
Dividend (declared March 2016 and payable 18 April 2017)	**n/a**	**$0.0875**
Percent franked (*quarterly estimate @ 30% tax rate*)	**n/a**	**55.1%**
Cash yield per annum (basis NAV)	**5.77%**	**5.81%**
Grossed up yield basis NAV per annum (*estimated*)	**6.61%**	**6.64%**
Investment grade issuer (including cash)	**90%**	**90%**
Fund average term	**4.2 years**	**4.4 years**
Bank Tier 1 exposure	**52%**	**53%**
Property exposure	**4%**	**4%**

* 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.

Australian Enhanced Income Fund (ARSN: 115 632 990)
Responsible Entity: Elstree Investment Management Limited (ABN: 20 079 036 810)
Level 10, 30 Collins Street Melbourne VIC 3000
Telephone: 61 3 8689 1348
Email: info@eiml.com.au