April 4, 2019

Australian Enhanced Income Fund - ASX Code "AYF"
March 2019 Investment Update and NAV

March 2019 NAV and Fund performance

The Fund's NAV of a unit at the close of business on March 29, 2019 was $**5.98** per unit. After the $0.0875 cents per unit cash distribution was paid to unitholders registered at 1 April 2019 the Fund's ex-distribution NAV of a unit was **$5.8925**. This compares with the Fund's NAV of a unit at the close of business on 28 February 2019 of $5.916. The change in NAV over the month of March represents a return of **1.08%.** The franking benefit for March 2019 was estimated to be **0.29%.**

Performance	1 month	3 months	12 months	3 Year p.a.
Australian Enhanced Income Fund*	1.08%	1.80%	6.32%	6.82%
UBS(A) Bank Bill Index	0.17%	0.52%	2.01%	2.13%

*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 1.52% for the month. This compares with the All Ordinaries Accumulation Index return of 0.70% and the UBSA Bank Bill Index return of 0.17%.

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 29 March 2019 was 6.82% p.a.

Dark times revisited.

It's been 10 years since the GFC's nadir in March 2009 and for those who care to remember it was not a very happy place to be if you were an investor in any type of risk asset. Thankfully, governments of the time in collusion with the central banks rescued the banking system and with it the global economy as a number of the world's major economies slipped or threatened to slip into recession. As a consequence of the unprecedented liquidity provisioning provided by the central banks the majority of risk assets enjoyed a period of prosperity since the GFC. However, with the US yield curve inverting, generating much hype about the possibility of the US economy recessing (we think the US yield curve has inverted for other reasons but we will 'run with' the consensus for the moment) we thought we would revisit those recessed times using our 'go to default option', the drawdown chart, with a view to determining the likely return path of risk assets should a recession eventuate in the United States or indeed elsewhere. In the chart we've tracked the drawdowns of a number of asset classes over the past 2 or 3 recessions (where there is reliable data). We've colour coded the asset classes (green for equities, yellow for property, blue for high yield type investments and red for finacial hybrids). Where possible we've used accumulation indices.

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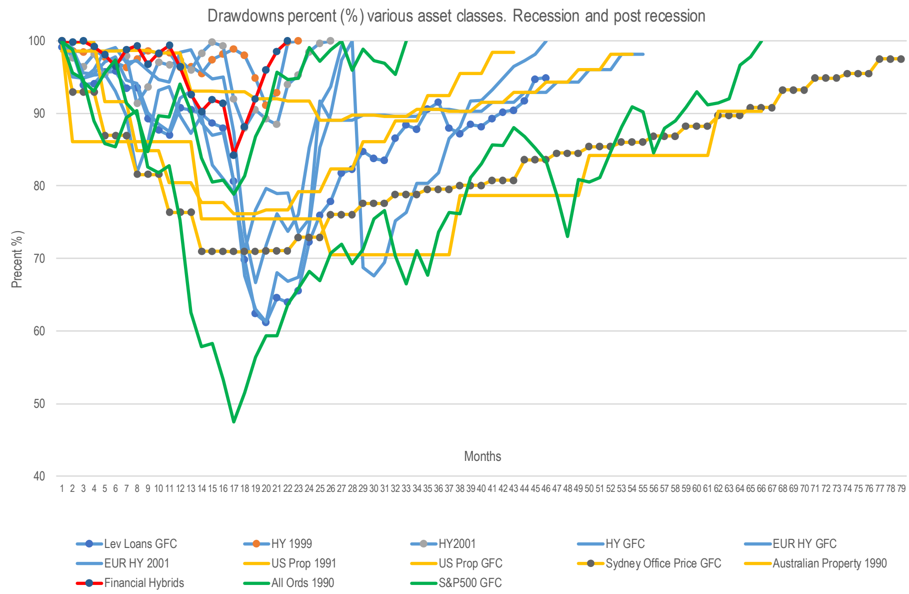

We make the following points;

- The cycle is not 3 months. Most asset classes drawdown last for 2 or 3 years. In some cases they fall quickly and recover quickly, in other cases the recovery is more protracted.
- Financial hybrids (in red and representing c75% of the current market cap) experienced a 15%, 6 month decline during the GFC before recovering over the next 6 months.
- Long term success is not about hitting the ball out of the park in the good times it's about minimising the losses (or drawdowns) in the bad times. An investment which returns 25% p.a. for 3 years and then -30% for the 4th year provides the same return outcome as one which returns 8% p.a. for 4 years.

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

	February 2019	March 2019
Net Asset Value (NAV) # Ex-distribution.	$5.916	$5.8925#
Change in NAV month on previous month (mopm)*	0.42%	1.08%
Total investment return includes the value of franking (mopm)	0.44%	1.37%
Dividend paid 15 April 2019	n/a	$0.0875
Percent franked (*quarterly estimate @ 30% tax rate*)	n/a	44.42%
Ex-distribution cash yield per annum (basis NAV)	5.92%	5.94%
Ex-distribution grossed up yield basis NAV per annum (*estimated*)	6.76%	6.79%
Investment grade issuer (including cash)	90.0%	91.0%
Fund average term	3.60 years	3.60 years
Major Bank Tier 1 exposure	55.0%	57.0%
Property exposure	2.0%	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.

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