



Australian Enhanced Income Fund Investor Update

8 June 2016

Elstree Investment Management Limited (ABN 20 079 036 810)

AFS License number 225721

Level 10, 30 Collins Street Melbourne VIC 3000

Telephone: 61 3 8689 1348

www.eiml.com.au

June 2016



Executive summary

- Disclaimer
- Securities Purchase Plan (SPP) offer details
- Why invest in the market and the Fund?
- What we expect from the market
- What to expect from the Fund
- About the manager
- Portfolio top 15 securities.
- Always outsource to a specialist manager.



Disclaimer

- The information and opinions contained in this presentation have been obtained from sources of Elstree Investment Management Limited (ABN 20 079 036 810) believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate or complete and it should not be relied upon as such. Information and opinions contained in this presentation are published for the assistance of recipients, but are not relied upon as authoritative and may be subject to change without notice. Except to the extent that liability cannot be excluded, Elstree Investment Management Limited does not accept liability for any direct or consequential loss arising from any use of material contained in this presentation.



Securities Purchase Plan (SPP) offer details

- SPP available to Eligible Unitholders registered at cob 3 June 2016.
- Offer opens on 8 June at 9.00am (Sydney time).
- Offer closes 24 June at 7.00 pm (Sydney time).
- Units issued under the SPP will be issued at \$5.75 (c2½ % discount to the Net Asset Value (NAV) struck on 13 May 2016).
- Participants are entitled to the \$0.0875 cash distribution payable on 15 July 2016
 - 34% of the distribution is estimated to be fully franked.
- Units issued under the SPP will attract a distribution yield of c6.50%
 - This compares with the current average TD rate of 2.25%
- Periodic NAV updates will be provided by the RE until the close of the offer.
- Proceeds will be invested in the Fund using the successful and long standing security selection process methods of the manager.



Why should you invest in the market and the Fund now

- An investment in the market and the Fund at this time is an attractive proposition for investors seeking high income.
- This is because spread margins, which move in the opposite direction to price, paid on the securities in which the Fund invests are approaching historically wide levels.
 - This means that yields compare favourably with broader equity market yields and the yields of risk free term deposits.
 - Market yields of securities in which the Fund invests of 6% - 7% are more than 2 times the yields of risk free term deposit rates and
 - Yields compare favourably with the dividend yield of the broader equity market @ c4.5% but importantly the securities;
 - Rank ahead of equity in the capital structure and
 - Are less risky and less volatile than equity.



Looking ahead: 12 month market performance expectations

- While spread margins are approaching historic wide levels we have identified a number of positive factors that could narrow spread margins and increase the prices of the securities in which the Fund invests over the next 12 months.
 - Some of the factors we have identified include;
 - Reduction of domestic primary (IPO) market supply,
 - De-risking of equity portfolios into more senior securities,
 - Declining risk free rates of return,
 - Institutional demand and
 - Attractive yield and capital stability.

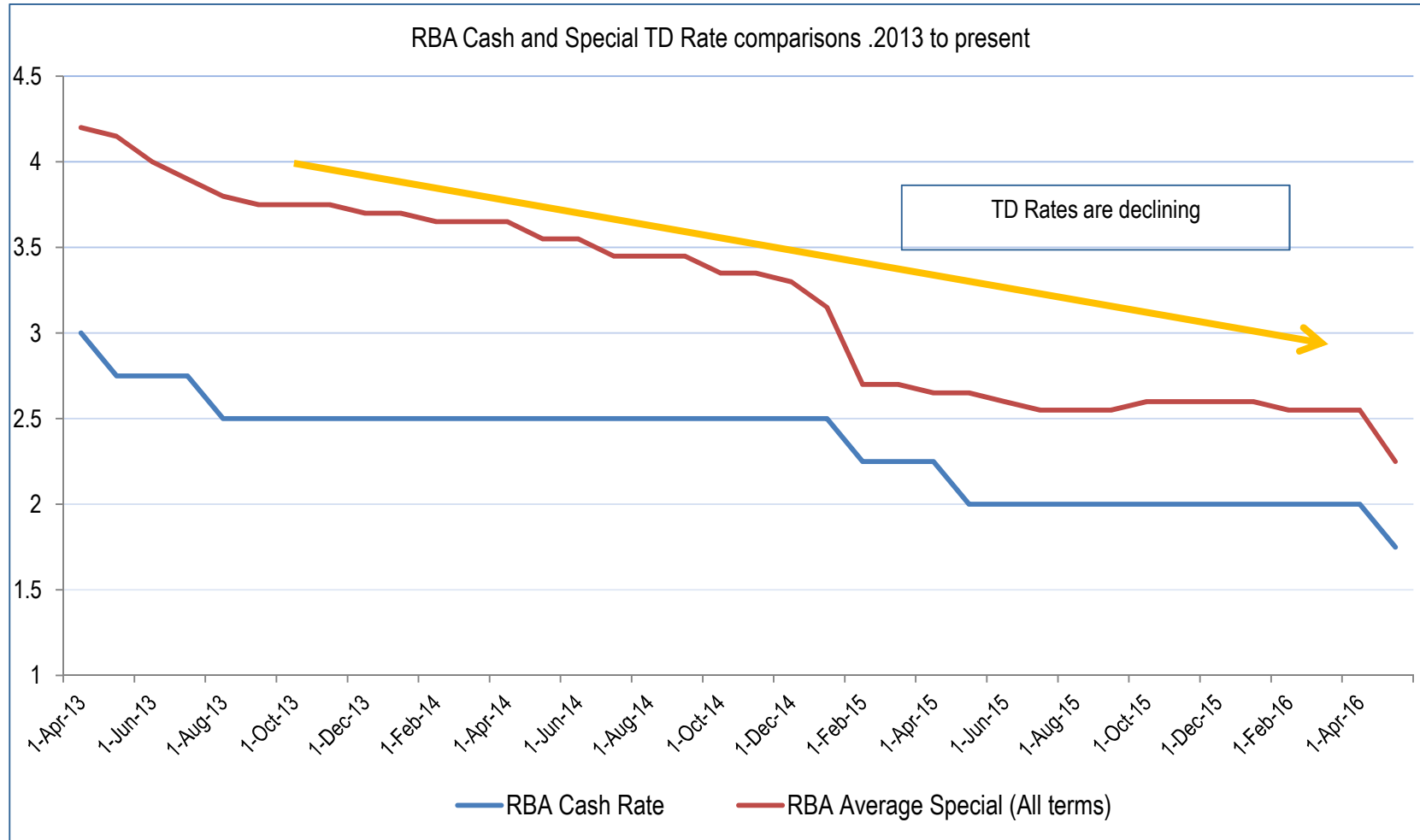


Factors influencing price performance of market at large

Factor	Likely price effect
Institutional demand	↑
ATO ruling on attaching franking credits to offshore issues	↑
De-risking of equity portfolios into more senior securities	↑
Declining risk free, cash, TD and long term bond rates	↑
Investors seeking high yielding capital stable investments	↑
Event shock	↓
Reduced domestic IPO supply	↑
Secondary market supply	→

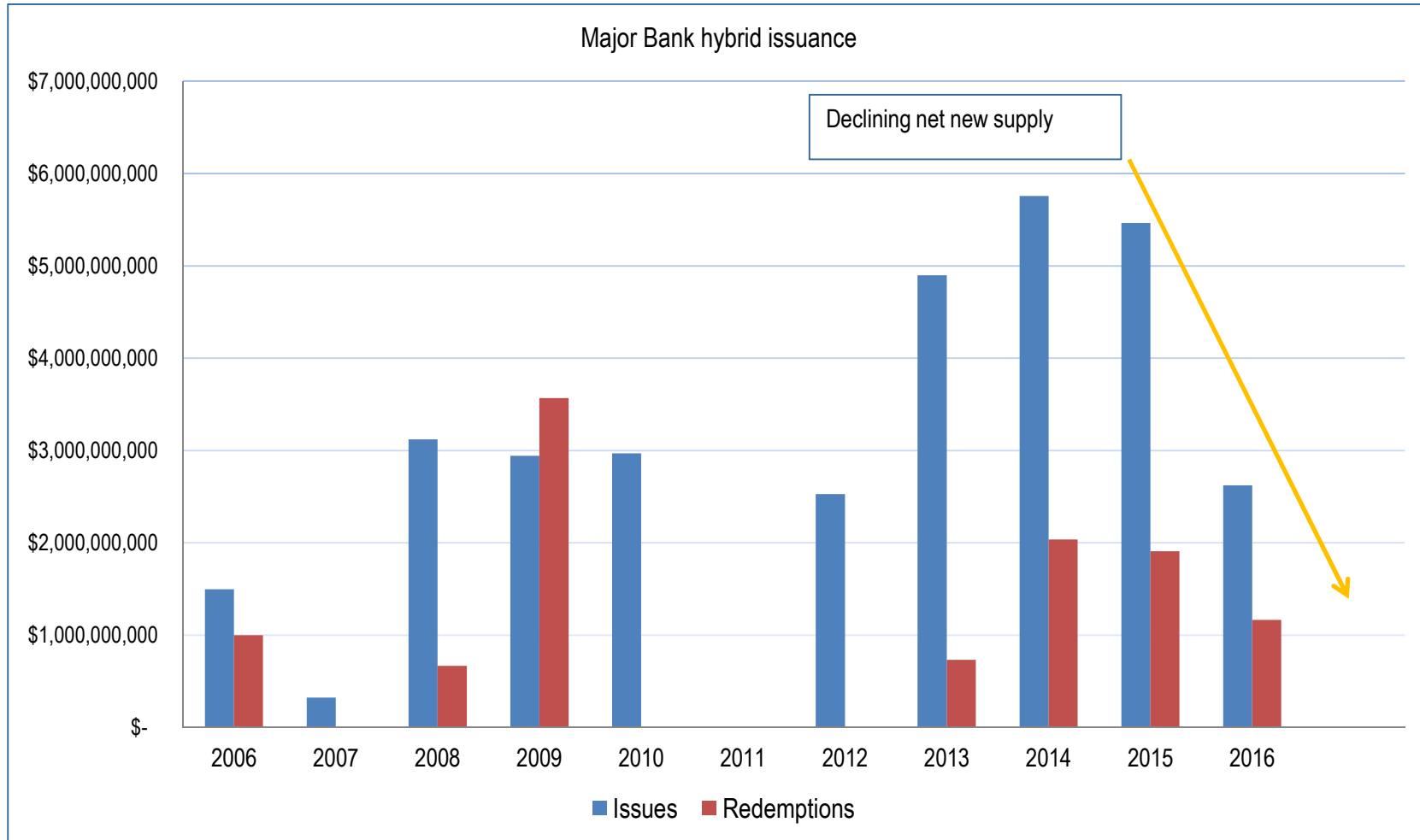


Less 'bang' now for your cash or TD Dollar





IPO supply that had a negative market impact is declining



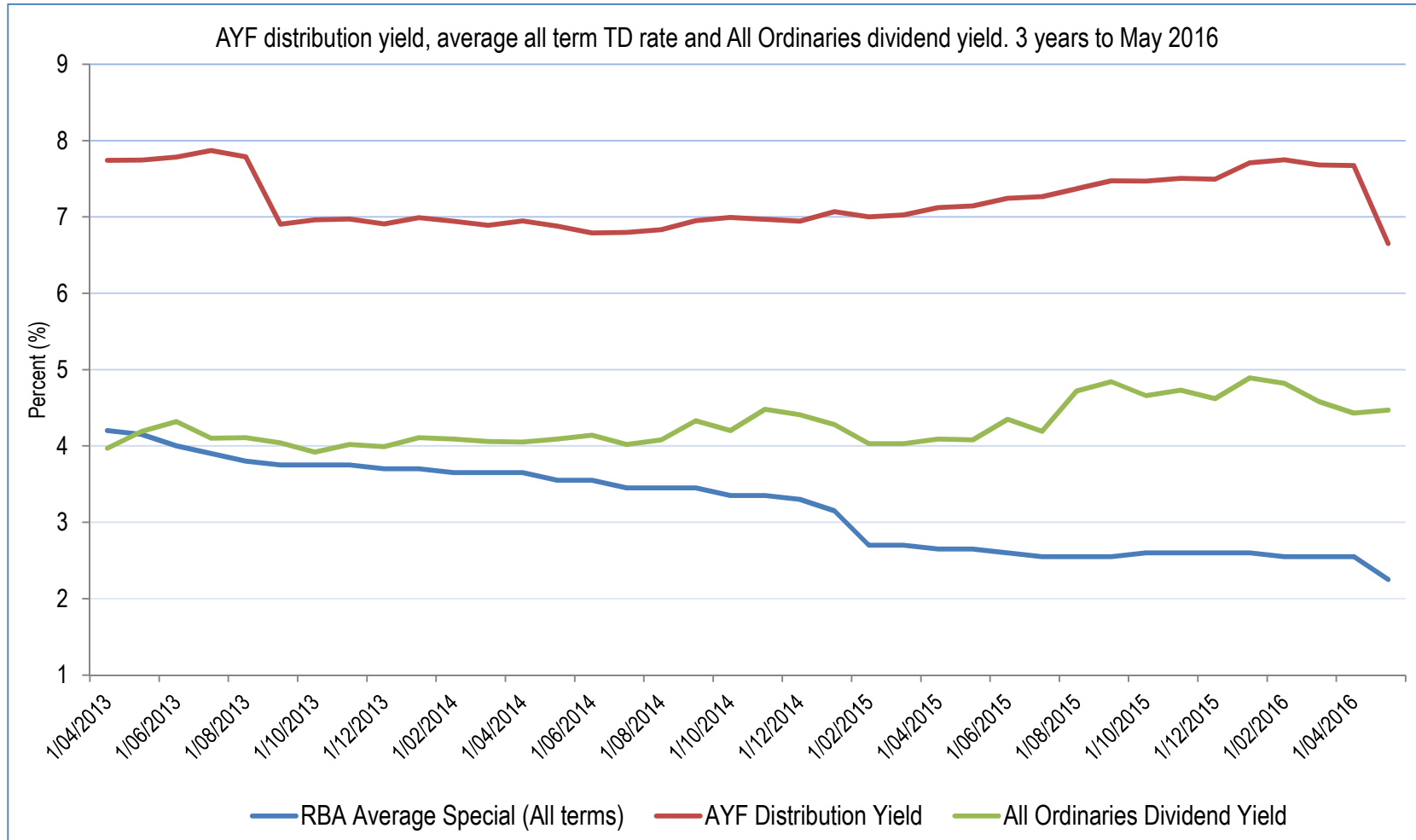


Looking ahead 12 month Fund performance expectations

- An investment in the Fund represents an attractive investment proposition for investors seeking a capital stable investment with a partially franked income stream.
 - At 6.50% the Fund's current distribution yield compares favourably with the risk free term deposit rate of return @ c2.25%.
 - Long term return outcomes compare favourably with risk free term deposits rates of return.
 - The Fund's low level of capital volatility combined with a high yield means that a major event shock notwithstanding the probability of the Fund experiencing a zero or negative total return outcome in any one year is reduced.
 - Because we are confident of a positive return outcome for the market over the next 12 months we expect the Fund to perform well.

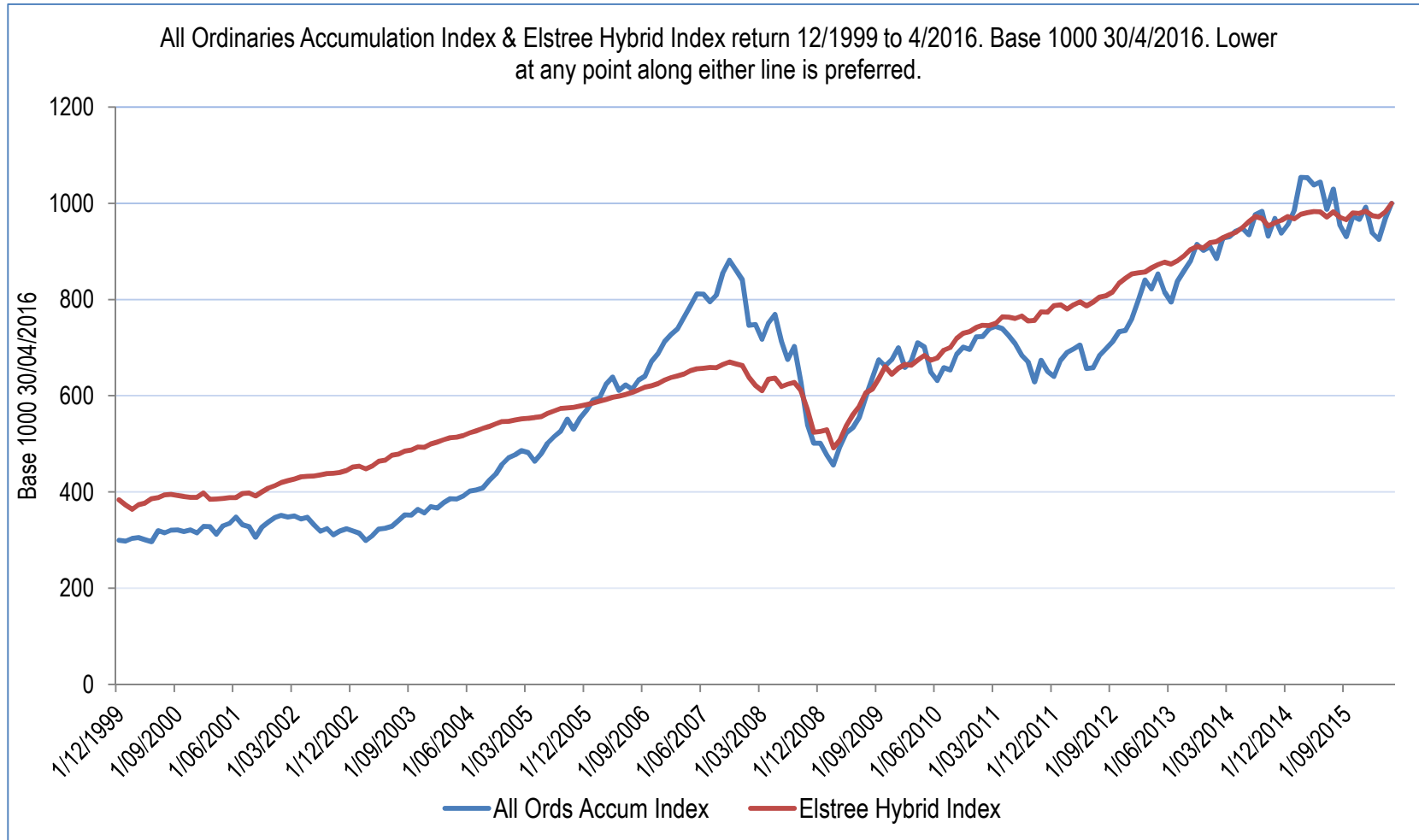


Yield looks attractive historically compared with TD's and equities





Hybrid and equity return outcomes. Similar over almost any reasonable timeframe but hybrids less volatile





About the manager

- Elstree Investment Management Limited (Elstree) is both the Responsible Entity (RE) and the manager of the Australian Enhanced Income Fund (Fund).
- Elstree has been managing portfolios of listed hybrid debt securities since 2003.
 - The investment managers have over 60 combined years experience managing portfolios of such securities.
- Securities are selected based on Elstree's 4 step filtered security selection process
 - Securities are weighted in the portfolio based on their;
 - Level of cheapness,
 - Market capitalisation,
 - Credit rating and
 - Liquidity.
- Strong risk management emphasis with processes in place to measure and quantify market risk, liquidity risk and 'Black Swan' event risk.



Portfolio top 15 securities (alphabetical not by weight)

	Security
1	ANZPE
2	CBAPC
3	CBAPD
4	CBAPE
5	CGFPA
6	CNGHA
7	CWNHB
8	GMPPA
9	IAG (sub)
10	NABHA
11	NABPA
12	NABPB
13	ORGHA
14	WBCHB
15	WBCPD



Almost always better off using a specialist fund

Rolling 3 years (annualised return)	Australian Enhanced Income Fund	Top 10 securities by market cap	Elstree Hybrid Index
Return (to 31 May 2016)	5.35%*	4.2%	4.6%
Volatility (Risk std dev)	3.3%	3.4%	2.9%

* Return is total investment return.