

## Australian Enhanced Income Fund

### June 2015 Investment Update and NAV

#### *June 2015 NAV and Fund performance*

On a cum-distribution basis the Fund's NAV at the close of business on June 30, 2015 was **\$6.21** per unit. This compares with the NAV of a unit at the close of business on May 29 of \$6.30. The change in NAV over the month of June represents a return of **-1.41%**. After the payment of the **\$0.10** cash distribution due to unit holders registered at the close of business on 30 June the Fund's ex-distribution NAV of unit was **\$6.11**. The franking benefit for June was estimated to be 0.07%.

#### *ASX trading details*

The Fund traded on market at a premium to the most recently published NAV of a unit over the month of June 2015. The volume weighted average price (VWAP) for June 2014 was **\$6.32**.

	1 month	3 months	12 months*	3 Year p.a.
Australian Enhanced Income Fund	-1.41%	-1.48%	-0.29%	6.37%
UBSA Bank Bill Index	0.18%	0.56%	2.60%	2.86%

\*Returns do not include the benefit of franking. Past performance is not necessarily a guide to future performance.

#### *Events of June*

- The ASX listed hybrid sector returned -1.17% for the month. This compares with the All Ordinaries Accumulation Index return of -5.40% and the UBSA Bank Bill Index return of 0.18%.

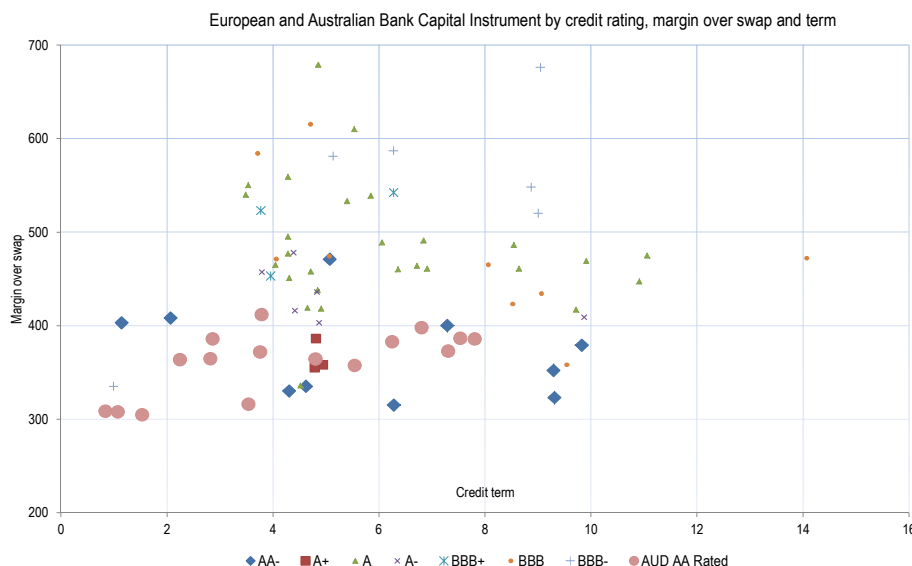
#### *Fund performance*

The Fund under-performed the broader market this month. The Fund's net return on an annual basis (excluding the benefit of franking but after fees) for the rolling 3 year period to end 30 June 2015 decreased to 6.37% from 7.10% previously.

#### *The European investor love affair with bank capital instruments called CoCo's.*

European investors love contingent convertibles or CoCo's. CoCo's are the equivalent of tier 2 and tier 1 bank capital instruments that Australian investors are so familiar. With CoCo's providing a yield pick up over other sub-sectors of the Euro high yield market investor demand has been strong. Analogous with increased demand is that there is a broad acceptance that the risks associated with Basel 3 compliant bank capital instruments, such as non viability, can be fairly and reasonably priced. Aided by falling fixed rate bond yields returns have been excellent too (most of the CoCo's are fixed rate). Regulators seem to be far more accepting as well. Part of the process of making banking systems safe means there will be 20%+ of loss absorbing capital before governments have to support the system as they did during the GFC. It's not feasible for this to be entirely equity capital, so banks need to offer 'other' capital instruments that are attractive to investors. The chart overleaf shows bank capital instruments issued by the Australian and European banks. The chart shows the instruments by term, margin and credit rating. The Australian banks are more highly rated because of their strong market position and profitability. While we've generated this chart before this is the first time the Australian bank hybrids are notably cheaper than their global peer group.

*Supply and demand.*



In both the European and Australian markets, supply is keeping margins wide. While we expect supply to cease soon in the Australian market we do expect supply to continue in Europe due to investor popularity and the desire of the banks to issue these types of instruments. Indeed, HSBC mentioned in a recent strategy report that they alone needed to raise Euro 44 b of Loss Absorbing Capital or LAC. With supply dwindling in Australia and faced with declining cash and risk free term deposit rates we would reasonably expect hybrids to be keenly sought by investors.

*Issued capital and NAV as at close of business 30 June 2015*

	30 June 2015	Previous month	Monthly change	Change over Quarter
Total number of ordinary units	2,898,519	2,882,753	15,801	18,801
Net Asset Value (NAV)	\$6.11#	\$6.30	-1.41%	-1.48

• Returns exclude the franking benefit. Past performance is not necessarily a guide to future performance. # Ex-distribution.

*Performance History*

	Feb 2015	March 2015	April 2015	May 2015	June 2015
Change in NAV	+0.93%	-0.34%	+0.24%	-0.30%	-1.41%
Change in UBSA Bank Bill Index	+0.21%	+0.21%	+0.18%	+0.20%	+0.18%
Comparison to Bank Bill Index	+0.72%	-0.55%	+0.06%	-0.50%	-1.23%
Franking benefit (estimated)	+0.14%	+0.19%	+0.02%	+0.09%	+0.07%
Total Return including franking	+1.07%	-0.15%	+0.26%	-0.21%	-1.34%

For additional information please contact **Norman Derham** at Elstree Investment Management Limited on (03) 8689 1348 or by email [info@eiml.com.au](mailto: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.