

## Australian Enhanced Income Fund

### September 2015 Investment Update and NAV

#### *September 2015 NAV and Fund performance*

Fund's NAV at the close of business on September 30, 2015 was **\$6.023** per unit. This compares with the NAV of a unit at the close of business on August 31 of \$6.106. The change in NAV over the month of September represents a return of **(1.36%)**. After the payment to unit holders registered on 30 September 2015 of the \$0.10 cents per unit cash distribution the Fund's ex-distribution NAV of a unit was **\$5.923**. The franking benefit for September was estimated to be **0.21%**.

#### *ASX trading details*

The Fund traded on market at a small discount to the most recently published NAV of a unit over the month of September 2015. The volume weighted average price (VWAP) for September 2014 was **\$6.004**.

	1 month	3 months	12 months*	3 Year p.a.
Australian Enhanced Income Fund*	-1.36%*	-1.44%*	-0.91%	5.06%*
UBS(A) Bank Bill Index	0.18%	0.54%	2.48%	2.74%

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

#### *Events of September*

- The ASX listed hybrid sector returned -0.53% for the month. This compares with the All Ordinaries Accumulation Index return of -2.50% and the UBSA Bank Bill Index return of 0.18%.

#### *Fund performance*

The Fund underperformed the broader market this month on the Fund's position in bank tier 1 hybrids which performed poorly. The Fund's rolling 3 year annual net return (excluding the benefit of franking but after fees) for the period ending 30 September 2015 decreased to 5.06% from 6.17% previously.

#### *Capital losses are only temporary unless the issuer defaults or a loss is realised*

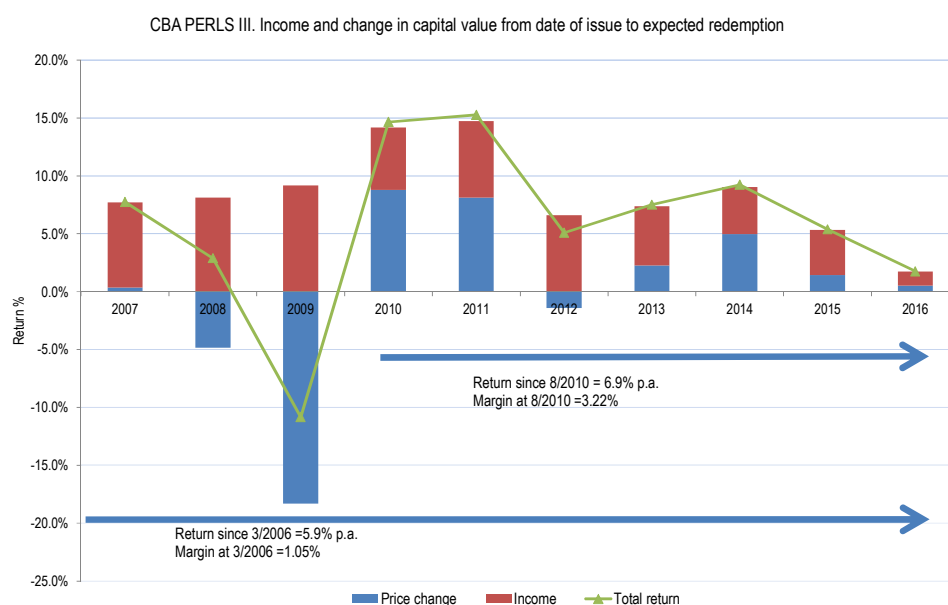
One of the keys to understanding listed subordinated debt and hybrid capital instruments is to understand that in the absence of a default event changes in the capital value of a security are only temporary. While changes in the capital value can be negative, providing the underlying issuer doesn't default or the investor 'realises' a capital loss by selling the security at a loss during the security's life, any loss of capital is only a temporary loss. Losses are restored when the security is redeemed at its PAR value at maturity. We highlight this using the CBA PERLS III as an example.

#### *Timing of investment is critical to the return outcome*

Perhaps the most critical element is timing of entry into the market. When the PERLS III security was issued in 2006 the coupon margin and yield to maturity was set at 90 day BBSW +1.05%. As the chart clearly shows the security's capital value has been quite volatile over the period posting a greater than + or - 5% change in the capital value in 5 out of the last 9 years. The total return (income plus change in capital value) since the date of issue to the present has been 5.9% p.a. It is no coincidence that 5.9% is equal to the average bank bill rate over the period of c4.8% plus the coupon margin of 1.05%. In other words investors got what they thought they would get when they

**CBA PERLS III**

purchased the security in 2006 even if there was some variance in the capital value over the period. By contrast, if an investor had purchased the security in August 2010, when the spread margin was 3.22%, that investor would have realised a total return of 6.9% equivalent to the average bank bill rate over the period of 3.5% plus the margin of 3.22%. The other interesting aspect is that the very same investor would have experienced only one year in which the capital value declined.



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

	30 September 2015	Previous month	Monthly change	Change over Quarter
Total number of ordinary units	2,884,760	2,884,760	Zero	+2,007
Net Asset Value (NAV)	\$5.923#	\$6.106	-1.36%*	-1.44%*

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

**Performance History**

	May 2015	June 2015	July 2015	August 2015	Sept 2015
Change in NAV	-0.30%	-1.41%	+1.37%	-1.44%	-1.36%
Change in UBSA Bank Bill Index	+0.20%	+0.18%	+0.18%	+0.18%	+0.18%
Comparison to Bank Bill Index	-0.50%	-1.23%	+1.19%	-1.62%	-1.54%
Franking benefit (estimated)	+0.09%	+0.07%	Zero	+0.12%	+0.21%
Total Return including franking	-0.21%	-1.34%	+1.37%	-1.32%	-1.15%

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.