November 13, 2015

Australian Enhanced Income Fund
October 2015 Investment Update and NAV

October 2015 NAV and Fund performance

Fund's NAV at the close of business on October 30, 2015 was $**6.024** per unit. This compares with the ex-distribution NAV of a unit at the close of business on September 30 of $5.923. The change in NAV over the month of October represents a return of **1.71%.** The franking benefit for October was estimated to be **0.02%**.

ASX trading details

The Fund traded on market at a small premium to the most recently published NAV of a unit over the month of October 2015. The volume weighted average price (VWAP) for October 2014 was **$6.054**.

	1 month	3 months	12 months*	3 Year p.a.
Australian Enhanced Income Fund*	1.71%*	-1.12%*	-0.14%	4.86%*
UBS(A) Bank Bill Index	0.19%	0.55%	2.43%	2.69%

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

Relative performance

- The ASX listed hybrid sector returned 1.47% for the month. This compares with the All Ordinaries Accumulation Index return of 4.59% and the UBSA Bank Bill Index return of 0.19%.

Fund performance

The Fund outperformed the broader market this month on the strength of the Fund's position in bank tier 1 hybrids which performed well. The Fund's rolling 3 year annual net return (excluding the benefit of franking but after fees) for the period ending 30 October 2015 decreased to 4.86% from 5.06% previously.

Did we just have a GFC event?

If you observed major Australian bank hybrid spread margins in isolation you would have sworn the world had just experienced another GFC event. Spread margins, which move in the opposite direction to price, of major bank hybrids are at their widest level since the GFC. The chart overleaf shows the spread margins on the National Income Securities (NABHA) and 2 CBA PERLS issues (PCAPA in 2008 - 2012 and CBAPD in 2015). As the chart shows the PERLS recent margin is higher than all but one month (Feb 09) and equal to the margin in mid-2010 when the market was digesting US double dip and "GREXIT" issues. You will note that the NABHA margin was higher for 4 months of the GFC and was last at these levels in 2012. So it's close to a GFC type event if you looked at spread margins of these securities in isolation.

Less painful if we were to experience another GFC event.

Even if we were to experience an event of the GFC's magnitude 3 things will ensure it is less painful experience for investors in hybrid securities. The 3 things are;
(i) Spread margins are at a higher starting point so an increase in spread margin to GFC levels will translate into much smaller capital losses.
(ii) The wider spread margin means income covers a greater proportion of capital loss,
(iii) The significantly improved credit quality of the market at large means that it will be less volatile.

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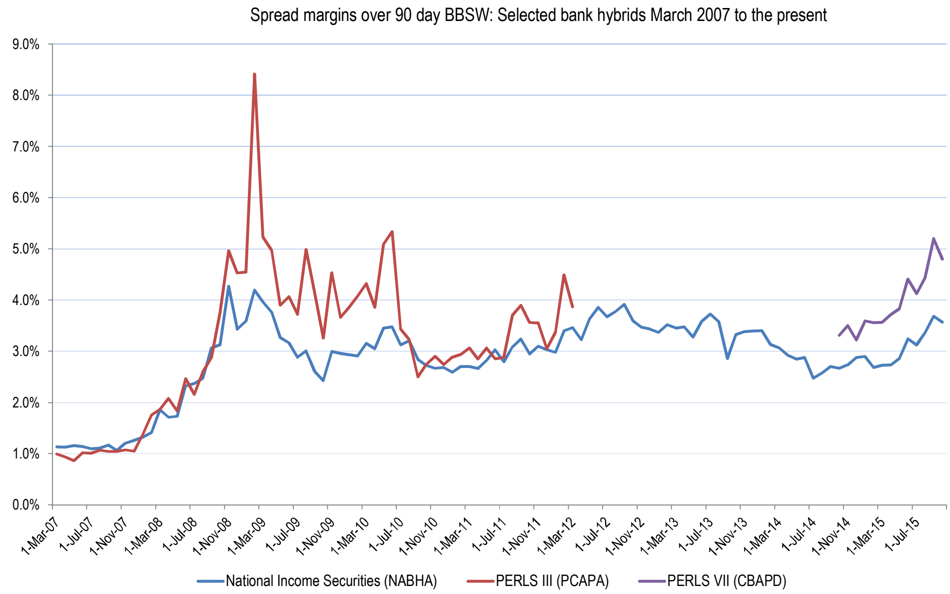
Spread margins at post GFC wides



Are the old GFC margins a valid benchmark for the next disaster?

The GFC remains the benchmark for a really bad systemic crisis so it is a valid assumption to factor spread margins of this width into risk modelling. While bank capital instruments are structurally more risky because they can be converted to equity in a crisis, the banks, who are the major issuers of these instruments, are much safer due to their significantly improved capital positions and more secure funding profiles. We note that the last time margins were at these levels hybrids produced returns greater than 5% over the next 6 months. Even if margins remain where they are the income return will be well above cash and term deposit returns.

Issued capital and NAV as at close of business 30 October 2015

	30 October 2015	Previous month	Monthly change	Change over Quarter
Total number of ordinary units	2,888,701	2,884,760	3,311	(13,577)
Net Asset Value (NAV)	$6.024	$5.923#	1.71%*	-1.12%*

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

Performance History

	June 2015	July 2015	August 2015	Sept 2015	Oct 2015
Change in NAV	-1.41%	+1.37%	-1.44%	-1.36%	+1.71%
Change in UBSA Bank Bill Index	+0.18%	+0.18%	+0.18%	+0.18%	+0.19%
Comparison to Bank Bill Index	-1.23%	+1.19%	-1.62%	-1.54%	+1.52%
Franking benefit (*estimated*)	+0.07%	Zero	+0.12%	+0.21%	+0.02%
Total Return including franking	-1.34%	+1.37%	-1.32%	-1.15%	+1.73%

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.