December 14, 2015

Australian Enhanced Income Fund
November 2015 Investment Update and NAV

November 2015 NAV and Fund performance

Fund's NAV at the close of business on November 30, 2015 was $**5.997** per unit. This compares with the NAV of a unit at the close of business on October 30 of $6.024. The change in NAV over the month of November represents a return of **-0.45%.** The franking benefit for November was estimated to be **0.08%**.

ASX trading details

The Fund traded on market in-line with the most recently published NAV of a unit over the month of November 2015. The volume weighted average price (VWAP) for November 2014 was **$6.00**.

	1 month	3 months	12 months*	3 Year p.a.
Australian Enhanced Income Fund*	-0.45%*	-0.13%*	-0.96%	4.45%*
UBS(A) Bank Bill Index	0.17%	0.53%	2.39%	2.66%

*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 -0.09% for the month. This compares with the All Ordinaries Accumulation Index return of -0.69% and the UBSA Bank Bill Index return of 0.17%.

Fund performance

The Fund underperformed the broader market this month on the strength of the Fund's position in bank tier 1 hybrids which underperformed. The Fund's rolling 3 year annual net return (excluding the benefit of franking but after fees) for the period ending 30 November 2015 decreased to 4.45% from 4.86% previously.

Credit markets are anticipating an increase in default activity

It's been almost 7 years since the GFC. A credit cycle is typically characterised by a period of between 4 and 8 years of little default activity and a 2 year period of high default activity, so we are nearing the later stages of the cycle. Although we haven't had an increase in default activity, spread margins often precipitate an increase in defaults. The chart overleaf shows spread margin changes since December 2014 for a range of credit indices and bank capital instruments.

Doesn't make sense for Australian hybrids to sell off

The contraction in margins in the early part of the year reflected a chase for yield in a low default environment. Margins widened in July and August as investors, fearing that energy companies would default as a consequence of an economic slowdown in China, sold bonds issued by these companies. While high yield bonds were the most affected the divergent movement in hybrid spread margins was the most intriguing. European CoCo margins contracted while margins on Australian hybrids increased as much as high yield "BB" rated bonds. The contraction in CoCo margins would indicate that there are no concerns about the global banking system but the widening of margins on Australian bank hybrids would indicate the opposite. This makes little sense as the Australian banks have raised $20 billion of equity capital and pre provision profitability of the system increased to a record $46.5 billion in 2015.

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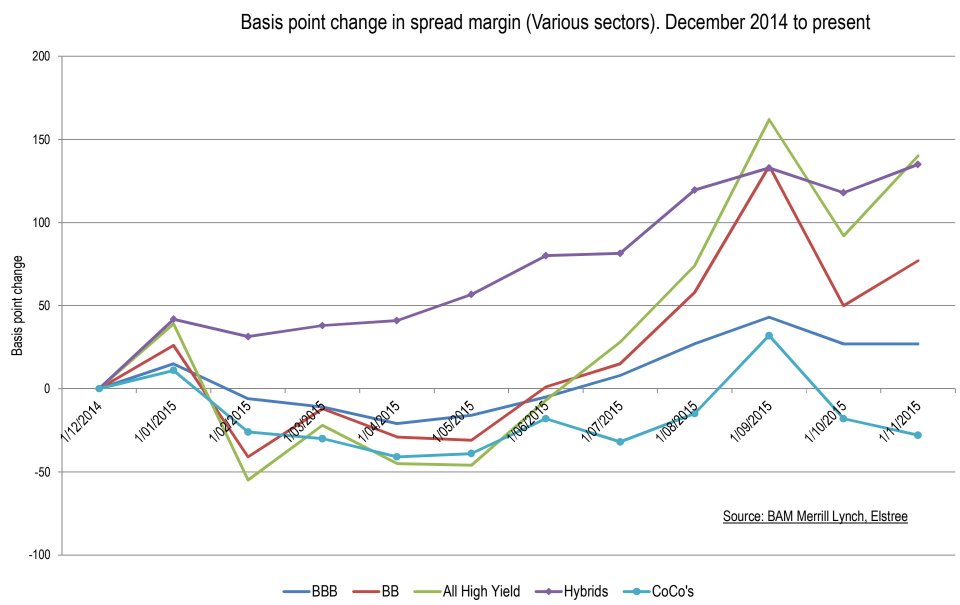

Disconnect has to be resolved

We know intuitively the reason hybrid spread margins have widened lies in the inefficient nature of the secondary market which has been influenced recently by supply originating from the sale of hybrids to fund bank shares and bank equity capital raisings. However the disconnect that exists between the spread margin of bank hybrids and the quality of the Australian banking system needs to be resolved. Either spread margins on hybrids contract or the banking system, despite being significantly better capitalised and more profitable than ever before in its history, is not as robust as we thought. We think there is no substance in the latter.

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

	30 November 2015	Previous month	Monthly change	Change over Quarter
Total number of ordinary units	2,888,701	2,888,701	Zero	+3,311
Net Asset Value (NAV)	$5.977	$6.024	-0.45%	-0.13%

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

Performance History

	July 2015	August 2015	Sept 2015	Oct 2015	Nov 2015
Change in NAV	+1.37%	-1.44%	-1.36%	+1.71%	-0.45%
Change in UBSA Bank Bill Index	+0.18%	+0.18%	+0.18%	+0.19%	+0.17%
Comparison to Bank Bill Index	+1.19%	-1.62%	-1.54%	+1.52%	-0.62%
Franking benefit (*estimated*)	Zero	+0.12%	+0.21%	+0.02%	+0.08%
Total Return including franking	+1.37%	-1.32%	-1.15%	+1.73%	-0.37%

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.