



Australian Enhanced Income Fund - ASX Code "AYF"

March 2016 Investment Update and NAV

March 2016 NAV and Fund performance

The Fund's NAV of a unit at the close of business on March 31, 2016 was \$5.859 per unit. This compares with the NAV of a unit at the close of business on 29 February of \$5.808. After the payment to unit holders registered at the close of business on 31 March 2016 of the \$0.10 cash distribution, the Fund's NAV of a unit was \$5.759. The change in NAV over the month of March represents a return of 0.88%. The franking benefit for March was estimated to be 0.15%.

Performance	1 month	3 months	12 months	3 Year p.a.
Australian Enhanced Income Fund*	0.88%	-0.76%	-2.32%	2.86%
UBS(A) Bank Bill Index	0.20%	0.60%	2.24%	2.58%

*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 1.03% for the month. This compares with the All Ordinaries Accumulation Index return of 3.67% and the UBSA Bank Bill Index return of 0.20%.

Fund performance

The Fund performed broadly in-line with the market this month. The Fund's rolling 3 year annual net return (excluding the benefit of franking but after fees) for the period ending 31 March 2016 increased to 2.86% from 2.72% previously.

To invest at IPO or not to invest at IPO? That is the question

To invest in a hybrid security at IPO or not to invest at IPO? That is the question. By and large investing at IPO is not a straight forward process. While the greater proportion of post GFC hybrid IPO's have not been profitable for investors, some have with the CBA PERLS VIII being a case in point. Generally, the worst affected were the major bank tier 1 hybrids. We have calculated that the median 'loss' of participating in a major Australian bank tier 1 hybrid issue from the point of the book build to 2 weeks after the listing date since March 2013 is not immaterial at -0.86%.

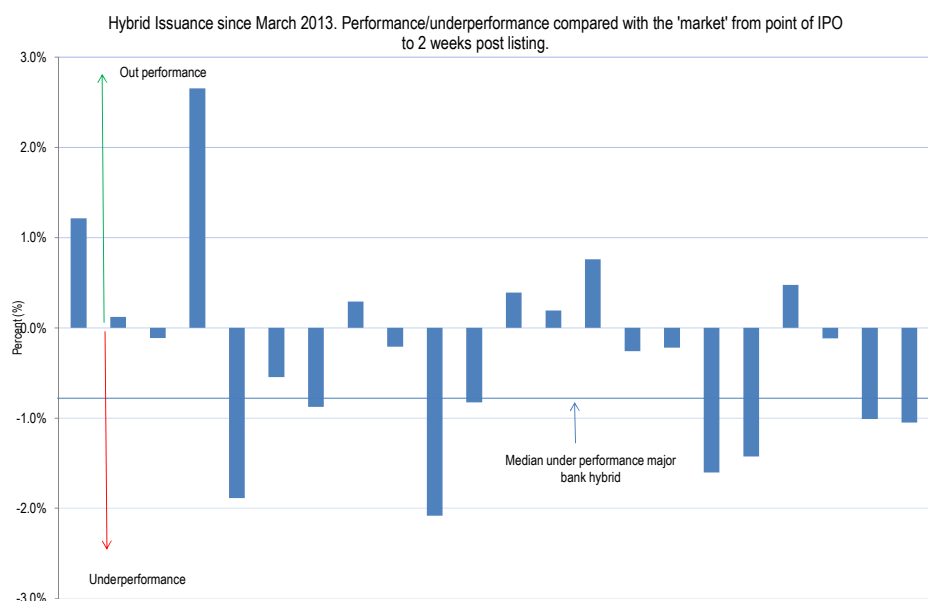
The issue of 'market risk'

While there are many things to consider before participating in an IPO, perhaps the most important thing to understand is the book build process, which takes place typically around 6 weeks before the listing date. By agreeing to participate in the book build process and committing monies, investors are exposed to 6 weeks of 'market risk' and a lot can change in 6 weeks. Some issuers ensure that IPO participants receive additional compensation for this risk. Some don't! The ability to determine which issuers do and which ones don't and what is fair compensation for 6 weeks of market risk is the domain of the experts.

A picture tells a 1000 words

The chart below details the 'performance' of all hybrid IPO's since 2013 against the performance of the market as denoted by the Elstree Hybrid Index. The performance period is from the point of the IPO announcement to 2 weeks post the listing date.

Best left to an expert



We understand that IPOs are popular with investors as it's easier to understand investing \$100 and getting a known coupon rather than buying a security for (say) \$98 or \$101 and receiving a different coupon. The best outcome however is to not necessarily buy at IPO without considering the secondary market or seeking expert advice. We continue to advocate that the best way to get exposure to hybrids is through a professional manager who understands all the issues.

Fund ready reckoner. Fund metrics and portfolio characteristics at a glance

	Feb 2016	March 2016
Net Asset Value (NAV)	\$5.808	\$5.757#
Change in NAV (month on previous month)	(0.50%)	0.88%
Total investment return (month on previous month)	(0.42%)	1.03%
Quarterly dividend (declared 17 March 2015)	n/a	\$0.10
Percent franked (quarterly estimate @ 30% tax rate)	n/a	31.6%
Cash dividend yield (basis NAV)	6.88%	6.95%
Grossed up dividend yield basis NAV (estimated)	7.74%	7.81%
Investment grade issuer (including cash)	90%	90%
Fund average term	3.7 years	3.7 years
Bank Tier 1 exposure	46%	46%
Property exposure	4%	4%

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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.