



## **Corporate Governance Statement**

A description of the Responsible Entity's corporate governance structure and practices is outlined below. These practices, unless otherwise stated, comply with the ASX Corporate Governance Principles and Recommendations 2014 Amendments (3rd Edition). These practices, unless otherwise stated were in place for the 12 month period ending 30 June 2015.

### **Role of the Board of Directors and Management**

The day to day management of the Australian Enhanced Income Fund (the "Fund") is conducted by Elstree Investment Management Limited (the "Manager") pursuant to a management agreement.

The Manager is the Responsible Entity ("RE").

The Board of the RE ("RE Board") is responsible for corporate governance. The RE Board is responsible for;

- Overseeing and monitoring the performance of the Manager;
- Ensuring that the Manager complies with the management agreement;
- Ensuring that the Manager is monitoring the performance of external service providers including the custodian and unit registry;
- Ensuring adequate internal controls exist and are appropriately monitored for compliance;
- Ensuring significant business risks are identified and managed appropriately;
- Approving the interim and final financial statements and related reports and periodic communications to the market and unitholders through the ASX that the RE Board deems material; and
- Setting appropriate business standards and codes for ethical behavior.

Because the RE has no full time employees the RE Board has deemed that setting measurable objectives under policy Recommendations 1.1 and 1.7 not to be appropriate.

The RE Board aims to ensure that its' directors and the Manager act with integrity and objectivity to enhance the reputation of the RE. The RE Board and the Manager also act in a manner designed to create value for all unitholders.

The RE Board reviews its collective performance as well as the individual performance of its directors by discussion with the Chairman using generally accepted board performance principals and standards (Recommendation 1.6). A performance review was not undertaken in the 2015 FY.

### **Structure of the Board**

The RE Board currently has no independent representation. The Directors of the RE Board are all executives of the Manager. The RE Board consists of Campbell Dawson (Chairman), Norman Derham and John Abbott. The RE Board has appointed Norman Derham as Secretary. The 3 directors have over 90 combined years' capital markets experience between them. Details about the directors including qualifications, expertise and relevant industry experience can be found on the RE's website [www.eiml.com.au](http://www.eiml.com.au) and in the Annual Report.

While the RE Board does not contain any independent directors, it is a legal requirement of the Fund's Constitution ("Constitution") that the RE Board appoint a Risk Management and Compliance Committee ("Risk Committee") for the Fund with a majority of independent representation to oversee the risk and compliance functions. The RE Board has complied with this requirement and has appointed a Risk Committee.

Despite the RE Board not having independent representation the RE Board is comfortable with its current structure because of the level of independent representation provided by the Risk Committee.

While the RE directors have not received formal letters of engagement (Recommendation 1.3) they are fully conversant with their respective roles and responsibilities the details of which can be found in the Annual Report and on the RE's website [www.eim.com.au](http://www.eim.com.au) The RE Directors are required to undertake up to 20 hours a year over any rolling 3 year period of personal development (Recommendation 2.6).

As executives of the Manager the RE directors collectively drive and are responsible for the success and performance of the Fund. The RE directors are significant unitholders in the Fund so their interests are closely aligned to the interests' of all unitholders.

While the RE Board is cognisant of diversity of age, gender and ethnicity (Recommendation 1.5), due to the RE Board's small size the RE Board deems it not necessary to have a formal diversity policy and because RE Board members receives no remuneration (the RE Board members are remunerated as executives of the Manager) it has not appointed a Nomination Committee (Recommendation 2.1).

### **Act ethically and responsibly (Recommendations: 3.1)**

While the RE does not currently have a formal Code of Conduct it recognises the importance of honesty, fairness, integrity and managing conflicts of interest. In managing conflicts of interest the RE Board has established a formal Trading Policy (“Policy”) for its members and the executives of the Manager (one of the same). In summary the Policy provides details of;

- A transaction window for transacting in units directly in the Fund and the requirement to obtain documented pre-transaction approval from the Chairman of the RE Board. In the Chairman’s absence another director must provide approval;
- A moratorium in dealing directly in the Fund’s units during this transaction window while in possession of price sensitive information; and
- Dealings in securities in which the Manager is transacting or may be considering transacting in. An RE Director must seek pre-transaction documented approval from the Chairman of the RE Board or in the Chairman’s absence another director before transacting in any security that the Manager is transacting in or is considering transacting in.

Additional details of the Policy can be found on the RE’s website at [www.eiml.com.au](http://www.eiml.com.au)

### **Safeguarding integrity in corporate reporting (Recommendations: 4.1 to 4.3)**

As a registered Managed Investment Scheme (“MIS”) it is a requirement that the RE lodge a Compliance Plan (“Plan”) with Australian Securities and Investments Commission (“ASIC”). The Plan is reviewed by the RE Board on a regular basis to ensure that the way in which the RE operates is appropriate. The Plan ensures the rights and interests of unit holders are protected and that compliance risks are identified and managed appropriately.

The RE Board has appointed a Risk Committee for the Fund. It is a legal requirement of the Fund’s Constitution that a Risk Committee, with a majority of independent representation, be established to ensure that the Fund complies with the Corporations Law and the Fund’s Constitution.

The Risk Committee meets quarterly and reports directly to the RE Board.

Members of the Risk Committee include Campbell Dawson (Chairperson), Richard Oakes (independent member) and Els Termaat (independent member). The RE Board considers that because of the broad scope of the Risk Committee, which includes as part of its function, the timing and integrity of corporate reporting, it is not necessary to appoint an Internal Audit Committee under Recommendation 4.1.

Details of the number of meetings of the Risk Committee during the 2015 FY are detailed in the Annual Report.

The RE Board has appointed BDO East Coast Partnership (“Auditor”) as auditor of the Fund. The partner responsible for the 2015 financial year audit of the Fund was Craig Maxwell.

Due to cost and practicalities issues the auditor did not attend the 2015 Annual General Meeting (“AGM”) to answer unitholder questions about the audit and the preparation of the audit. The Auditor expressed its’ willingness to respond to unitholder enquiries directly any time both before and after the AGM. Contact details of the auditor can be found in the Annual Report.

The RE’s accountant in conjunction with the Manager provide written confirmation to the RE Board that the Fund’s Financial Reports truly and accurately represent the Fund’s position in accordance with the relevant accounting standards as reported at the time (Recommendation 4.2).

#### **Make timely and balanced disclosure (Recommendations: 5.1)**

While the RE does not have a formal written procedure regarding timely and balanced reporting it is governed by the Corporations Law, the Constitution and the continuous reporting requirements of the ASX Listing Rules (“Rules”). The RE Board, ensures that relevant information is released in a timely and appropriate manner so that the market and unitholders have an equal opportunity to assess relevant and material information concerning the Fund and the Fund’s performance.

The RE Board ensures that this information is factual and presented in a clear, concise and balanced way. The Secretary of the RE is responsible for ensuring that information is released to the market and unitholders.

The Secretary reports to the RE Board on the effectiveness of this process on an annual or needs be basis.

#### **Respect the rights of security holders (Recommendations: 6.1 to 6.4)**

The RE Board aims to ensure that the unitholders are informed of all major developments affecting the Fund and the performance of the Fund. The Secretary is responsible for coordinating the disclosure of information to unitholders and regulators under the direction of the RE Board.

The RE is committed to:

- Ensuring that unitholders and the market are provided with full and timely information about the Fund’s activities and that this information is presented in a balanced, concise and understandable way. This is undertaken through annual and half yearly reports, Net Asset Back reporting, investor presentations, investor briefings, ASX releases, general meetings and the RE’s website;
- Complying with continuous disclosure obligations contained in the applicable ASX Listing Rules and the Corporations Act; and
- Encouraging unitholder participation at general meetings and information sessions.

The RE Board encourages full participation of unitholders at the Annual General Meeting (“AGM”) so as to ensure a high level of identification with the Fund’s strategy. Unitholder information sessions are held annually following the AGM in Melbourne. Information sessions are also held in Sydney and on a ‘needs’ basis in Adelaide and Brisbane. Information sessions provide a forum where unitholders are afforded an opportunity to raise questions and participate in a general discussion about the Fund in a relaxed forum.

The RE can confirm that the RE’s appointed registrar, Advanced Share Registry Limited, provides the option for unitholders to receive and send communications electronically. Where possible unitholders are encouraged to send and receive information in this way.

**Recognise and manage risk (Recommendations: 7.1 to 7.4)**

As detailed in Recommendation 4 the RE Board has appointed a Risk Committee for the Fund. The qualifications of the appointed members to the Risk Committee are detailed at the RE’s website [www.eiml.com.au](http://www.eiml.com.au)

The Risk Committee is responsible for identifying and managing operational risk issues such as legal and regulatory risk, systems and process risk and outsourcing risk.

The RE Board requires the Risk Committee to;

- report quarterly on operational and key business risks,
- review any external audit commentary in respect to internal controls,
- conduct any other investigations it requires in order to report on the effectiveness of the internal control system and

- report annually on the robustness of the risk management framework.

The RE can confirm that the RE Board has received assurance from the Risk Committee that for the 2015 FY in the Risk Committee's opinion:

- the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control; and
- the system of risk management and internal control is operating effectively in all material respects in relation to financial reporting risks.

### **Remuneration fairly and responsibly (Recommendations: 8.1 to 8.3)**

Directors of the RE Board are not remunerated. As such there is no Remuneration Committee (Recommendation 8.1) nor is there an equity based remuneration scheme available to the directors of the RE Board (Recommendation 8.3).

As executive directors of the Manager, Campbell Dawson, Norman Derham and John Abbott are remunerated by the Manager.

