

Market and Fund Performance Financial Year ending 30 June 2020

The Australian Enhanced Income Fund produced investors a total return of 4.43% over the year to end 30 June 2020, which was well ahead of the Elstree Hybrid index return of 1.96%.

The Fund's total investor return comprised:

- A decrease in NAV of (\$0.068)
- Cash distributions of \$0.275
- Franking credits equivalent to \$0.057

The All Ordinaries Accumulation Index over the same period declined by (7.2%) while the UBS (Australia) Bank Bill index returned 0.85%.

Market summary

Covid 19 was the defining event for all investment markets this year. Prior to that hybrid markets had been unexceptional, but the market saw increased volatility over the last 4 months of the fiscal year. The market hit a low in late March falling around 17% from the previous all-time high. By end March, the loss had been reduced to around 8%. By the end of the June quarter the market had made a new all-time record high, while equities remain around 15% below January levels.

The drivers for the Covid weakness were:

- Fears of a deep recession.
- Equity market weakness producing some momentum driven selling.
- Concerns that the regional banks might be more heavily affected which led to some heavy selling of hybrid securities in March.

The Fund performed very well. The total investment performance of the Fund (i.e pre fees and inclusive of franking credits) was around 1% better than the Elstree Hybrid Index in the March quarter and 3% better in the June quarter, leading to a 4.2% outperformance over the year. Our investment approach paid off as we had a higher than normal cash weighting during the March drawdown and we were weighted to the best performing sectors during the recovery.

August 25, 2020



Outlook

Most investors would be aware of the proposal to change the Responsible Entity ("RE") and investment strategy via a unitholder's meeting to be held on 9 September 2020.

As the meeting is due to be held in September, it is not particularly prudent to provide forecasts for the Fund, as there may be a new manager and new strategy if the vote is successful.

We would like to take this opportunity to thank unitholders for their support for the Fund and our management since the Fund's inception in 2006.

Performance over the last 10 years has ranged between good and excellent, with total return outcomes in the mid to high single digits for almost all periods, with the Fund either outperforming or equalling the returns of the Elstree Hybrid Index and producing returns well above those of Bank Term Deposits.

Should the vote to change the RE be successful, we hope we can manage some of your investments in the future. We are currently considering options in regard to developing a product that will be available to retail investors.

Campbell Dawson, Chairman (25 August 2020)