

Australian Enhanced Income Fund - ASX Code "AYF"

June 2018 Investment Update and NAV

June 2018 NAV and Fund performance

The Fund's NAV of a unit at the close of business on June 30, 2018 was **\$6.011** per unit. After the payment to unit holders registered at 30 June of the \$0.0875 cash distribution the Fund's ex-distribution NAV of a unit was **\$5.924**. This compares with the NAV of a unit at the close of business on 31 May 2018 of \$5.914. The change in NAV over the month of June represents a return of 1.64%. The franking benefit for June 2018 was estimated to be **0.20%**.

Performance	1 month	3 months	12 months	5 Year p.a.
Australian Enhanced Income Fund*	1.64%	2.27%	3.42%	4.99%
UBS(A) Bank Bill Index	0.14%	0.48%	1.77%	2.11%

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

Relative performance

Including the value of franking the ASX listed hybrid sector returned 1.56% for the month. This compares with the All Ordinaries Accumulation Index return of 3.21% and the UBSA Bank Bill Index return of 0.14%.

After fees but before the value of franking, the Fund out-performed the broader market this month. Over 5 years the Fund's rolling annual net return, which excludes the benefit of franking but is net of all fees, for the period ending 30 June 2018 was 4.99% p.a.

The last 6 months – an overview.

It has been a fascinating 6 months. The chart overleaf comprises the price indices, base 1000 at 1 January 2018 of the Elstree Hybrid, the All Ordinaries and ASX200 Banks indices. We have identified and highlighted the significant events to occur over the period with lettering. You will note that one issue with using price indices is that large dividend or interest payment periods distort the data. For example, most of the major banks went ex-dividend in early May which means that the share price index looks weaker than it really was. Similarly, June is a big ex-interest period for hybrids.

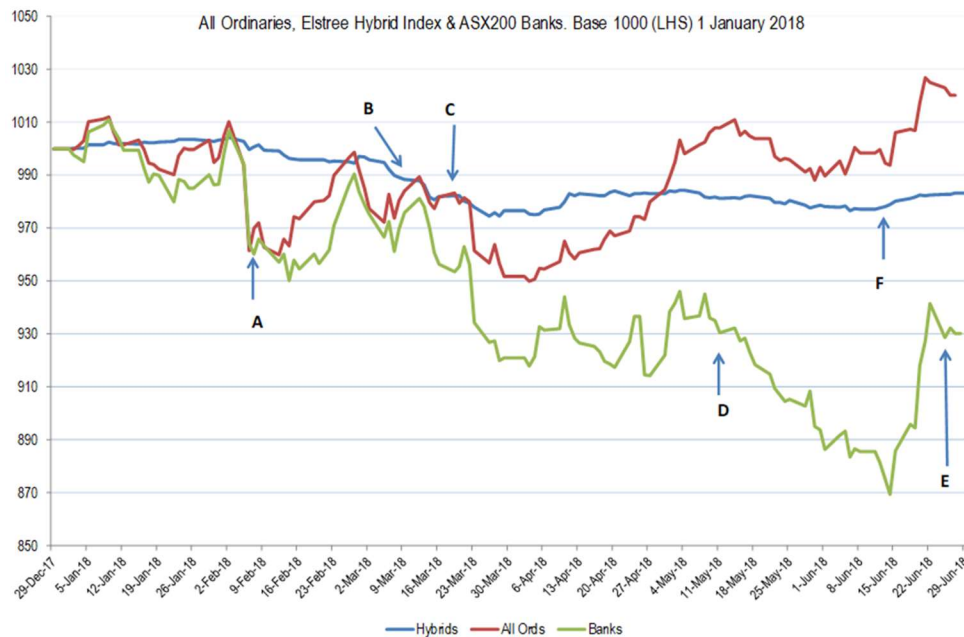
- A)** Equity markets get hit by a significant spike in volatility after 12 months of trending markets. Equity markets fall 4 - 5% in 2 weeks. Hybrids are not materially affected, falling by around 0.6%.
- B)** Federal opposition leader Bill Shorten reveals plans to remove the franking credit rebate for SMSF in pension/0% tax paying mode. Move affects equities but has a much larger effect on hybrids.

C) CBA and Westpac announce new hybrid issues. There is some secondary market selling ahead of the issues. The combination of Bill Shorten’s plan and issuance sees the most pronounced hybrid market weakness since late 2015 early 2016.

D) Banks reporting season was solid with no sign of the feared credit losses. A combination of the ex-dividend period, the Banking Royal Commission and CBA’s AUSTRAC moment see bank share prices fall. Hybrids are not affected as share price falls relate to profitability rather than solvency.

E) Blue chip shares rally into 30 June with banks participating in that rally.

F) Major bank hybrids hit 4% margins over bbsw which sees buying interest and market improves.



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

	May 2018	June 2018
Net Asset Value (NAV) # Ex-distribution.	\$5.914	\$5.924#
Change in NAV month on previous month (mopm)*	(0.17%)	1.64%
Total investment return includes the value of franking (mopm)	(0.07%)	1.84%
Dividend (N/A)	n/a	n/a
Percent franked (quarterly estimate @ 30% tax rate)	n/a	49.99%
Ex-distribution cash yield per annum (basis NAV)	5.92%	5.91%
Ex-distribution grossed up yield basis NAV per annum (estimated)	6.76%	6.75%
Investment grade issuer (including cash)	93%	93%
Fund average term	3.5 years	4.1 years
Major Bank Tier 1 exposure	51%	53%
Property exposure	2.0%	3.0%

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