

Australian Enhanced Income Fund December 2011 Investment Update and NAV

December 2011 NAV

The Fund's NAV at the close of business on December 31, 2011 was **\$6.468** per unit. This compares with the NAV of a unit at the close of business on November 30, 2011 of **\$6.405**. After the payment to Unit Holders registered at the close of business on December 31, 2011 of the \$0.125 cent cash distribution the ex-distribution NAV of a unit was **\$6.343**. The change in NAV over the month of December 2011 represents a return of +0.98%. The franking benefit was estimated to be 0.08%.

Trading details

The Fund traded at a discount to the most recently published NAV of a unit over the month of December. The volume weighted average price (VWAP) for December 2011 was **\$6.13**.

| | December 2011 |
|---------------------------------|---------------|
| Australian Enhanced Income Fund | +0.98% |
| UBS Warburg Bank Bill Index | +0.39% |

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

Events of December

- The ASX listed hybrid sector returned +1.77% for the month. This compares with the All Ordinaries Accumulation Index return of -1.57%,
- The Origin and AFIC securities both listed at premiums during the month.

Fund and security performance

The Fund underperformed the broader market this month on the performance of 2 discounted securities the Fund owns. Positive return contributions came from GMPPA (+4.61%) and AAZPB (3.11%), while GNSPA (-18.6%) and ELDPA (-8.6%) detracted from performance. The Fund's net return (excluding franking) for the year ended December 31, 2011 was 0.82% from -0.43% previously.

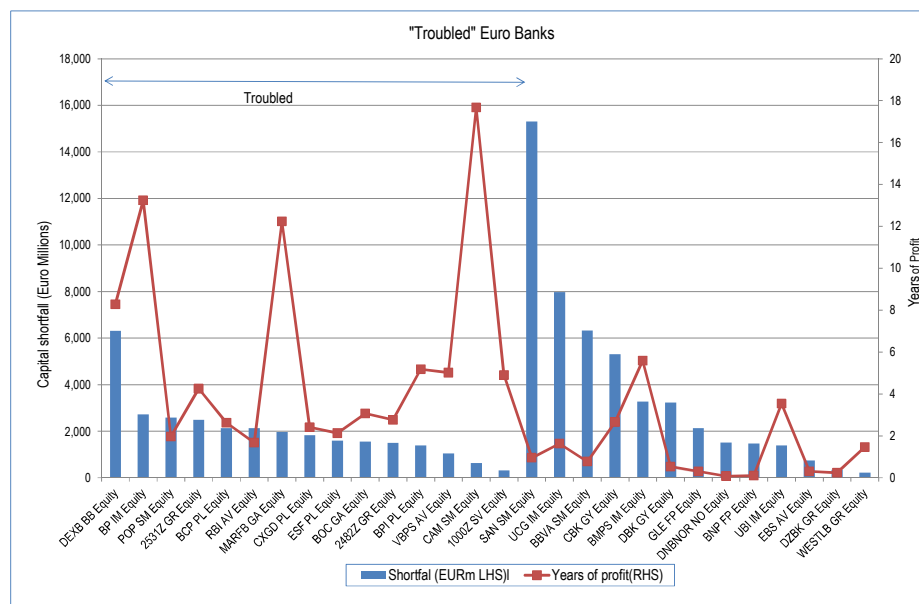
Where the recent ECB actions fits in

Once again the press has been pontificating over the latest ECB action to allow unlimited borrowing for up to a 3 year term for all European banks. We think this is unambiguously positive and is in effect, a repeat of the US Federal Reserve's successful 2009 actions. By providing this facility the ECB is reducing refinancing risk and providing the banks with funding to buy cheap assets.

What is "trouble"?

As a consequence of the recent European bank stress tests a lot has been written about the amount of equity capital to be raised by the so called 'troubled' banks. While EUR80 billion is a large amount if you 'strip out' the state owned group and take into account those banks currently being restructured the amount falls to EUR 18b. By comparison Australian banks raised around A\$40b of capital during the GFC. As a means of presenting the data in a meaningful way we have used profitability over a 12 month period and/or needing to raise more than 20% of the

current level of equity capital to define 'troubled'. By way of example, the Spanish bank, Santander (shown as SAN) has to raise EUR 15b. While EUR15b is a large amount it is only 1year of normal profits for SAN and will not be an issue.



Credit numbers: still woeful

The economy continues to deleverage with credit approaching its third year of negative real growth. Money supply aggregates have started to decelerate which is not a good thing. The slow credit growth is a positive for financial stability and bank funding, but means that economic activity will remain subdued.

Issued capital and NAV as at close of business 31 December 2011

| | 31 December 2011 | Previous month | Monthly change | Change over Quarter |
|--------------------------------|------------------|----------------|----------------|---------------------|
| Total number of ordinary units | 3,043,166 | 3,083,331 | (40,165) | (36,171) |
| Net Asset Value (NAV) | \$6.343* | \$6.405 | +0.98% | +3.21% |

* Ex Distribution. Returns exclude the franking benefit. Past performance is not necessarily a guide to future performance.

Performance History

| | Aug2011 | Sept 2011 | Oct 2011 | Nov 2011 | Dec 2011 |
|---------------------------------|---------|-----------|----------|----------|----------|
| Change in NAV | -2.90% | -0.48% | +3.94% | -1.67% | +0.98% |
| Change in UBS Bank Bill Index | +0.45% | +0.39% | +0.42% | +0.39% | +0.39% |
| Comparison to Bank Bill Index | -3.35% | -0.89% | +3.52% | -2.06% | +0.59% |
| Franking benefit (estimated) | +0.03% | +0.12% | +0.06% | +0.10% | +0.08% |
| Total Return including franking | -2.87% | -0.36% | +4.00% | -1.57% | +1.06% |

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