

## Australian Enhanced Income Fund - ASX Code "AYF"

### April 2017 Investment Update and NAV

*April 2017 NAV and Fund performance*

The Fund's NAV of a unit at the close of business on April 28, 2017 was \$6.056 per unit. This compares with the ex-distribution NAV of a unit at the close of business on 31 March of \$6.0155. The change in NAV over the month of April represents a return of **0.67%**. The franking benefit for April was estimated to be **zero (0.00%)**.

Performance	1 month	3 months	12 months	3 Year p.a.
Australian Enhanced Income Fund*	0.67%	1.64%	9.49%	4.09%
UBS(A) Bank Bill Index	0.15%	0.43%	1.88%	2.30%

\*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 credits the ASX listed hybrid sector returned 0.61% for the month. This compares with the All Ordinaries Accumulation Index return of 0.78% and the UBSA Bank Bill Index return of 0.15%.

*Fund performance*

After fees but before the value of franking the Fund performed in-line with the market this month. The Fund's rolling annual net return, which excludes the benefit of franking but is net of all fees, for the 12 month period ending 28 April 2017 was 9.49%.

*SMSF and industry Superfund return comparison*

We thought it would be interesting to compare the return outcomes of the Industry Superfunds and self-managed super funds or SMSF's since June 2008. The chart overleaf shows the 6 monthly returns and accumulated value for SMSF and Industry Superfunds. The SMSF returns are calculated based on the benchmark returns of the actual asset allocation of the SMSF universe. The Industry Super Funds returns are net of all management fees whereas the SMSF returns are gross returns. In order to get a true comparison a 'cost' should be deducted from the SMSF return. Returns for both since June 2008 to December 2016 have been around 5.4% p.a.

*Reason for Industry Superfunds outperforming over the last 5 years*

If however, over the entire period you assume SMSF's pay some fees (i.e transaction and administration costs) the industry funds have outperformed. The outperformance has been magnified over the past 5 years with Industry funds outperforming by around 2% on an annual basis (i.e. 10.9% cf 8.9% p.a). We think the outperformance of the Industry Funds over the last 5 years can be explained by a couple of factors. Those factors are;

- (i) Industry super funds have a greater to allocation to infrastructure which has had a number of years of double digit plus return outcomes.
- (ii) SMSFs are heavily overweight cash. Even though cash holdings have fallen from a peak of 33% to just under 25%, that's going to impact returns over the period as cash rates have fallen. Importantly though, the high cash weighting is indicative of a risk averse group of investors. We think it will be interesting to see what it's going to take for SMSF's to bring their cash holdings back to more sensible levels.

*Performance attribution*



The Fund’s performance attribution for the March Quarter revealed that a significant proportion of outperformance of the Fund was derived from the Fund owning and having an overweight position in a small group of securities including NABHA, MXUPA and CWNHB. This is why outsourcing the management of hybrids to a specialist manager makes sense. If you compound the annual ‘gross’ excess return of (say) 2.0% over a 5 year period it becomes material. It more than covers the Management Expense Ratio making the case for outsourcing a compelling one.

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

	March 2017	April 2017
Net Asset Value (NAV) - ex-distribution#.	\$6.0155#	\$6.056
Change in NAV month on previous month (mopm)*	0.86%	0.67%
Total investment return includes the value of franking (mopm)	1.09%	0.67%
Dividend (declared March 2017 and payable 18 April 2017)	\$0.0875	n/a
Percent franked (quarterly estimate @ 30% tax rate)	55.1%	n/a
Cash yield per annum (basis NAV)	5.81%	5.78%
Grossed up yield basis NAV per annum (estimated)	6.64%	6.61%
Investment grade issuer (including cash)	90%	90%
Fund average term	4.4 years	4.5 years
Bank Tier 1 exposure	53%	53%
Property exposure	4%	4%

\* 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](mailto: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.