

Australian Enhanced Income Fund - ASX Code "AYF"

October 2018 Investment Update and NAV

October 2018 NAV and Fund performance

The Fund's NAV of a unit at the close of business on October 31, 2018 was **\$5.932** per unit. This compares with the Fund's ex-distribution NAV of a unit at the close of business on 28 September 2018 of \$5.959. The change in NAV over the month of October represents a return of (0.46%). The franking benefit for October 2018 was estimated to be **0.015%**.

Performance	1 month	3 months	12 months	5 Year p.a.
Australian Enhanced Income Fund*	(0.46%)	0.65%	3.34%	4.49%
UBS(A) Bank Bill Index	0.17%	0.49%	1.89%	2.18%

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

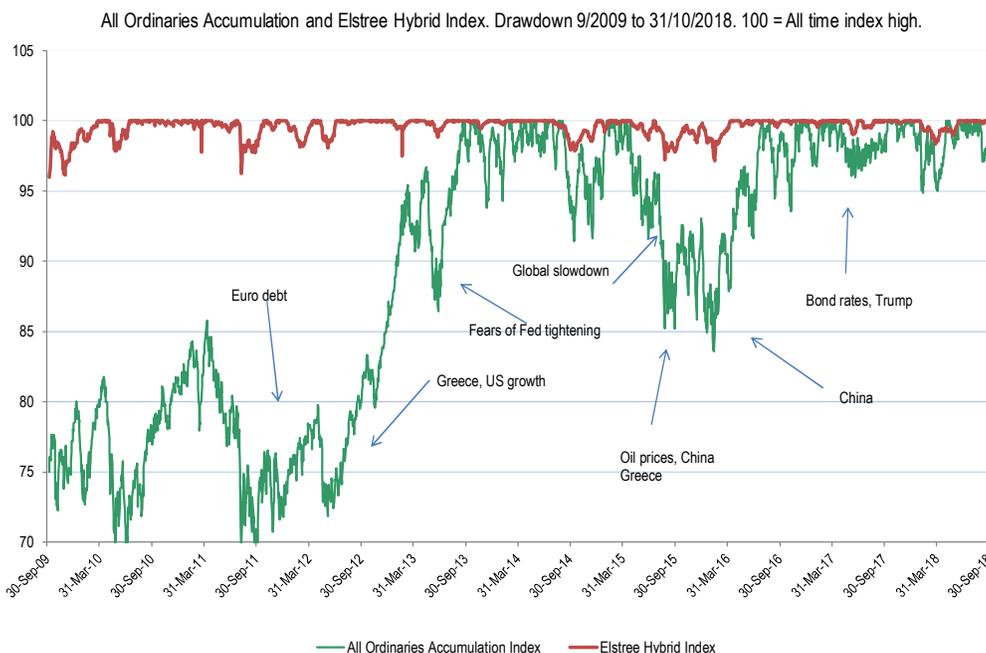
Relative performance

Including the value of franking the ASX listed hybrid sector returned (0.37%) for the month. This compares with the All Ordinaries Accumulation Index return of (6.27%) and the UBSA Bank Bill Index return of 0.17%.

After fees but before the value of franking, the Fund under-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 31 October 2018 was 4.49% p.a.

Looking backwards to move forwards – another perspective.

In last month's review (data was to end September) we commented on the closeness of the absolute return outcome of hybrids and equities since the GFC's nadir in March 2009. While on an annualised basis equities just shaded hybrids at 15.1% compared with 13.8%, hybrids won hands down on a risk (volatility) adjusted basis. The chart overleaf articulates much the same thing but in a different way. The chart, which is called a drawdown chart, shows the drawdowns of the All Ordinaries Accumulation and the Elstree Hybrid index since the GFC. A value of "100" means that the index is at an all-time high and when the value is below 100 it indicates how much it (the index) has fallen (i.e) a reading of "90" = a 10% fall from the previous all-time high and so on. What is clear from the chart is that since the GFC, hybrids have largely been immune to equity market drawdowns. There have been numerous 10% drawdowns of the equity market (including the most recent event), but in each event the Elstree Hybrid Index fell between 0% and 2%. Within each movement there are lots of intriguing relationships which, we as a manager of hybrids, aim to understand and take advantage of to add value. But from a macro and asset allocation perspective, it's interesting to note that since the GFC, adding a hybrid allocation to an equity portfolio has been invaluable. The performance of hybrids since 2009 to 31 October 2018 is almost exactly the same as equities but the much lower volatility resulting in material improvements in risk adjusted total portfolio outcomes.



With the structure of the hybrid market continuing to improve (i.e predominantly investment grade issuer) it is reasonable to assume that any equity market drawdown of 10% or less than 10% will not translate into a drawdown of any materiality by the ASX listed hybrid market. While there is a correlation to equities it is a weak one and hybrids are significantly less volatile. As a manager of hybrid securities, where we think defensively is when the equity market draws down by 15%.

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

	September 2018	October 2018
Net Asset Value (NAV) # Ex-distribution.	\$5.959#	\$5.932
Change in NAV month on previous month (mopm)*	(0.08%)	(0.46%)
Total investment return includes the value of franking (mopm)	0.17%	(0.45%)
Dividend paid 15 October 2018	\$0.0875	n/a
Percent franked (quarterly estimate @ 30% tax rate)	0.49%	n/a
Ex-distribution cash yield per annum (basis NAV)	5.87%	5.89%
Ex-distribution grossed up yield basis NAV per annum (estimated)	6.71%	6.73%
Investment grade issuer (including cash)	90%	88.9%
Fund average term	3.6 years	3.58 years
Major Bank Tier 1 exposure	51%	49.5%
Property exposure	3.0%	4.7%

* 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.