

## Australian Enhanced Income Fund

### November 2011 Investment Update and NAV

#### *November 2011 NAV*

The Fund's NAV at the close of business on November 30, 2011 was **\$6.405** per unit. This compares with the NAV of a unit at the close of business on October 31, 2011 of **\$6.514**. The change in NAV over the month of November 2011 represents a return of -1.67%. The franking benefit was estimated to be 0.10%.

#### *Trading details*

The Fund traded at a discount to the most recently published NAV of a unit over the month of November. The volume weighted average price (VWAP) for November 2011 was **\$6.25**.

	November 2011
Australian Enhanced Income Fund	-1.67%
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 November*

- The ASX listed hybrid sector returned -0.05% for the month. This compares with the All Ordinaries Accumulation Index return of -3.43%.
- Origin and AFIC both announced they would be issuing hybrid securities.

#### *Fund and security performance*

The Fund underperformed the broader market this month on the performance of a small number of discounted securities the Fund owns where the performance of those securities was heavily influenced by negative movements in the ordinary equity. Positive return contributions came from Transpacific (+2.7%) ALE Notes (+1.8%), Sydney Airport SKIES (+ 0.90%) while GNSPA (-30.0%) detracted from performance. The Fund's net return (excluding franking) for the year ended November 30, 2011 was -0.43% from 2.64% previously.

#### *What happens when banks don't lend to each other*

One of the hallmarks of any financial crises is when banks stop lending to one another. Unless this process is stopped, a systemic crisis ensues. A lot has been written about how central bank liquidity provisioning doesn't solve the problem but exacerbates it. While this is technically correct, it is also substantially wrong. If we go back to 2008, it was only the actions of the world's central banks that prevented a depression. The chart overleaf shows what happened from March 08 to 2009. The OIS - LIBOR spread (RHS) is an indicator of the willingness of banks to lend to one another while the US Bank index and the US Federal Reserve Balance sheet, (both indexed to 100 as at March 09) are on the LHS. While in the US the OIS - LIBOR spread has narrowed to normal levels, in Europe it is a different story.



*So what? Europe is reliving 2008 that's what*

We have recently seen the European equivalent of the OIS - LIBOR spread increase alarmingly which is dangerous and, if unsolved, will lead to a 2008 type event. As we now know the banks pulled their lines on the French banks and there was a rumour on 30 November that a “large European bank” was close to failure. Clearly the joint action of 8 central banks to provide liquidity was aimed at short circuiting the potential train crash. While it was an important move, we think that it's not the final solution. That will be when the ECB starts pumping liquidity into the system.

*Issued capital and NAV as at close of business 30 November 2011*

	30 November 2011	Previous month	Monthly change	Change over Quarter
Total number of ordinary units	3,083,331	3,083,331	Zero	-117,471
Net Asset Value (NAV)	6.405%	\$6.514	-1.67%	+1.71%

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

*Performance History*

	July 2011	Aug2011	Sept 2011	Oct 2011	Nov 2011
Change in NAV	+0.17%	-2.90%	-0.48%	+3.94%	-1.67%
Change in UBS Bank Bill Index	+0.39%	+0.45%	+0.39%	+0.42%	0.39%
Comparison to Bank Bill Index	-0.22%	-3.35%	-0.89%	+3.52%	-2.06%
Franking benefit (estimated)	0.00%	+0.03%	+0.12%	+0.06%	+0.10%
Total Return including franking	+0.17%	-2.87%	-0.36%	+4.00%	-1.57%

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