

Australian Enhanced Income Fund

September 2011 Investment Update and NAV

September 2011 NAV

The Fund's NAV at the close of business on September 30, 2011 was **\$6.392** per unit. This compares with the NAV of a unit at the close of business on August 31, 2011 of **\$6.423**. The change in NAV over the month of September 2011 represents a return of **-0.48%**. After the payment to unit holders registered at the close of business on September 30 of the 12.5 cent per unit cash distribution the Fund's ex distribution NAV of a unit was **\$6.267**. The franking benefit was estimated to be 0.12%.

Trading details

The Fund traded at a discount to the most recently published NAV of a unit over the month of September. The volume weighted average price (VWAP) for September 2011 was **\$6.18**.

	September 2011
Australian Enhanced Income Fund	-0.48%*
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 September

- The ASX listed hybrid sector returned 0.15% for the month. This compares with the All Ordinaries Accumulation Index return of -6.27%,
- The breakdown in return correlation between the All Ordinaries Accumulation Index and listed credit continued this month.

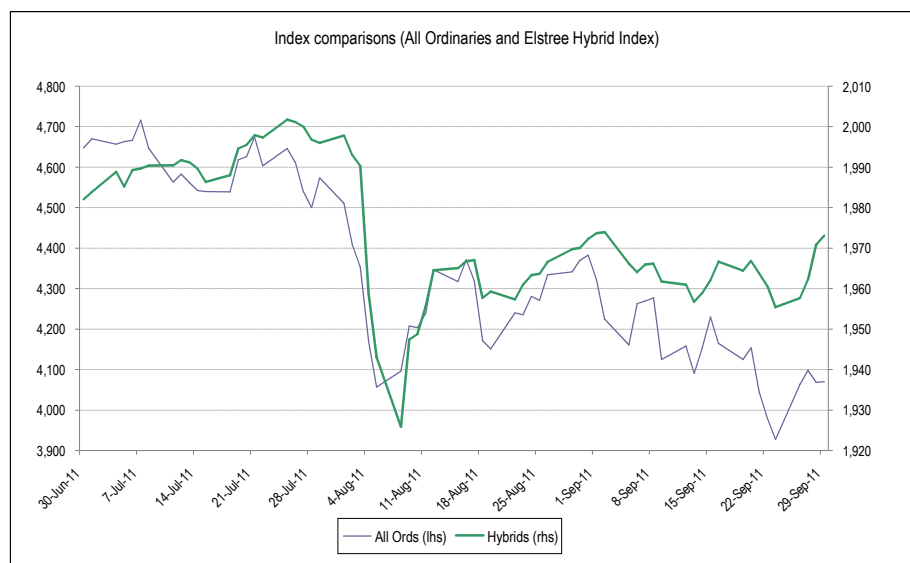
Security and fund performance

The Fund under performed the broader market this month due to the poor performance of a small number of discounted securities that the Fund owns. Positive return contributions came from NFNG (+4.11%), MXUPA (+2.49%) and CBAHA (+2.16%) while GNSPA (-38.70%), PXUPA (-26.47%) and the unlisted AXA note (-2.59%) detracted from performance. The Fund's net return (excluding franking) for the year ended September 30, 2011 was 1.78% from 4.95% previously.

Return correlations

The chart overleaf details the relationship between the All Ordinaries Index and the Elstree Hybrid Index. In contrast to the June quarter when equity and hybrid returns were uncorrelated amid moderate equity market weakness, there was a much higher correlation this quarter when the equity market declined sharply in August. Interestingly, the correlation broke down in September with the hybrid sector performing strongly amid a backdrop of a volatile and weak equity market. While the reasons for the breakdown are many, we think the drivers relate to the attractive income yield and the balance sheet strength of the underlying hybrid issuers. As investors in hybrid securities we are encouraged by these factors and expect them to be supportive of both performance and return volatility in the medium term amid a period of global uncertainty and heightened risk aversion.

Index comparisons.



Liquidity Trap in prospect?

Annual credit growth has been in the circa 3% range since the end of the GFC. While it looks like business credit growth has stopped decreasing there is nothing that indicates that there will be any buoyancy in the economy over the next 12 months, although it is intriguing that Broad Money has accelerated recently. Worryingly, there is no flow through to credit growth or to the level of economic activity. The US is experiencing something similar where it is being openly referred to as a 'liquidity trap'. So far, no one has been brave enough to mention a liquidity trap in the context of Australia.

Issued capital and NAV as at close of business 30 September 2011

	30 September 2011	Previous month	Monthly change	Change over Quarter
Total number of ordinary units	3,079,337	3,200,802	-121,465	-126,686
Net Asset Value (NAV)	\$6.267*	\$6.423	-0.48%	--3.21%

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

Performance History

	May 2011	June 2011	July 2011	Aug2011	Sept 2011
Change in NAV	-2.53%	-1.36%	+0.17%	-2.90%	-0.48%
Change in UBS Bank Bill Index	+0.43%	+0.41%	+0.39%	+0.45%	+0.39%
Comparison to Bank Bill Index	-2.96%	-1.77%	-0.22%	-3.35%	-0.89%
Franking benefit (estimated)	+0.09%	+0.10%	0.00%	+0.03%	+0.12%
Total Return including franking	-2.44%	-1.26%	+0.17%	-2.87%	-0.36%

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.