

July 22, 2020

### **Australian Enhanced Income Fund ("Fund") update**

The Fund produced good returns this year, despite the Covid 19 induced volatility of March. The total return outcome, which comprises cash distributions, changes in Net Asset Value (NAV) and the value of franking was 4.61% over the year to end 30 June 20. This compares to the bank bill rate of return of 0.85% and the All Ordinaries Accumulation return of -7.2%. We remain confident that the market will continue to produce acceptable return outcomes and that our management efforts will add value above and beyond a passive holding of hybrid securities or other similar Funds.

We write in more detail below, but the Board is also considering options regarding the Fund with the aim of maximising returns of unitholders in the case of wind-down/sale of the Fund.

### **Request for Registry**

360 Capital FM Limited ACN 090 664 396 ("360 Capital") recently became a substantial shareholder, lodged a request for a copy of the unit registry. This is permissible under the Corporations Law. In this case we have not consented to 360 Capital communicating with unitholders, but we are obliged to provide them with registry details. We are unsure what 360 Capital will do once they receive the information, but they, or their representatives, may contact you.

### **Background**

360 Capital first contacted us about the acquisition of the management rights of the Fund in late 2019. They then forwarded 2 unsolicited proposals on 1 July 2020 and 7 July 2020. The proposals are described as "Strictly Private and Confidential", so we cannot publish the details, but neither of the proposals contained any provision for unitholders to exit their holding should the management rights be transferred. Should the management rights be transferred, unitholders may be invested in a vehicle which had different investments, uncertain liquidity and may or may not trade near the NAV. In their ASX release of 16 July, 360 Capital stated that the offers "....provided a liquidity facility to those unitholders who wish to exit AYF". As mentioned above, a liquidity exit was not contemplated in the proposals. The Board of the Responsible Entity has rejected these offers.

### **Future Actions**

The Board has, for some time, been considering the future of the Fund. Its' small size has resulted in a higher than acceptable expense ratio and limited liquidity and various factors have made it difficult to grow the Fund.

Over the past few years, the performance of the Fund has been excellent with the result that even with the high expense ratio, unitholders have done far better than they could have with a market portfolio of hybrids or an investment in one of the other hybrid funds. This may change in the future.

Over the next 6 months the Board will investigate various options if the expected net return outcomes, (ie) investment outcomes after fees, makes the Fund not suitable for investors.

The range of options will include:

- i) Closure of the Fund and return of proceeds to investors at the NAV of the Fund.
- ii) The sale of the Fund to another manager. The Fund may be valuable to other investors because it is ASX listed. A recent experts report (PKF Melbourne Corporate Independents Expert Report ACN 603 323 182) noted that prices for “listed corporate shells have ranged up to \$1 million” and that two recent transactions resulted in an implied value of the shell of \$501,414 and \$393,750”. We are unsure whether that is achievable for this Fund or whether there are other factors which may make it worth more or less. We would note that a sale of the Fund shell for \$500,000 may result in an additional distribution to unitholders of \$0.15 per unit in excess of the NAV.
- iii) Sale of the empty trust. The Fund has accrued tax losses which may be of value to an investor. As with the sale of the Fund, if a party pays for the empty Fund, the proceeds would be returned to unitholders.

Over the next 6 months we will also consider any unsolicited approaches, such as the one made by 360 Capital. The Board has an important fiduciary duty in this process and will act in the best interests of the unitholders.

### Redemption

Investors may be aware that unitholders have a right to request redemption of their units at NAV less transaction costs of 0.2% (the “Sell Spread”). The Responsible Entity (RE) has the absolute right to accept or reject the request.

The Board of the RE has resolved to provide further detail on how the RE will exercise its’ discretion and now advises that the RE will accept all redemption requests for units held by unit holders for 3, or more than 3, consecutive years. For example, if you are a unitholder and you purchased units before 22/7/2017, you can redeem those units under the provisions of the redemption process as described in the PDS. This change will apply from today.

We will update investors on events when it is appropriate to do so.

In the meantime, should you have any queries, please feel free to call either Norman Derham (0425 749 215) or Campbell Dawson (0421 335 043)



Campbell Dawson (Chairman) Australian Enhanced Income Fund.