

About Elstree & the Elstree Hybrid Fund

Hybrids have been a popular choice for many investors over the last decade, producing returns that have been slightly less than equity markets, with much lower risk. Current margins of around 3% above the cash rate compare favourably with the post-2010 average margin of 3.4% and we expect volatility to remain materially lower than equities.

We believe the hybrid market offers opportunities for active investors. It is dominated by retail investors who have a limited understanding of bank and insurer capital issues, and who under and over react to issuer specific risks and equity market movements.

At Elstree, we do things differently.

We use a different process to other investors. That process, over 80 years of combined experience, and the use of our proprietary database has resulted in portfolios which have consistently outperformed the hybrid market, with a controlled approach to risk.

We construct portfolios which seek to benefit from market opportunities and inefficiencies through a combination of active security and/or sector selection, and active secondary market trading.

Our investment thesis aims to deliver above sector returns that enhance the medium income levels and capital stable nature of the sector. We control the portfolio risk by using disciplined risk management and a security weighting process to reduce exposure to securities when market or security stress reaches a certain level.

In 2002, we developed the Elstree Hybrid Index, which is the only index of post-1999 hybrid prices and returns. The data from the Elstree Hybrid Index extensively for security selection, risk management and benchmarking.

The Elstree Hybrid Index is also used by portfolio managers and advisers seeking to benchmark their investment performance against the broader Hybrid sector.

The Elstree Hybrid Fund will adopt the same investment strategy as our successful unlisted wholesale fund, the Elstree Enhanced Income Fund (min investment \$500,000) which has outperformed both the cash rate (bank bills) and the Elstree Hybrid Index on a per annum basis (see below).

The Elstree Hybrid Fund will be available for investment in December 2020 via an Exchange Traded Product (ETP) structure listed on Chi-X (Code: EHF1)

Performance as at 1st December 2020	3 MONTHS	1 YEAR	3 YEARS	5 YEARS	10 YEARS
ELSTREE ENHANCED INCOME FUND (P.A)**	1.7%	7.2%	7.2%	8.3%	7.2%
ELSTREE HYBRID INDEX (P.A)	1.3%	2.8%	5.1%	6.4%	6.2%
BANK BILLS	0.0%	0.4%	1.3%	1.6%	2.5%

** Returns are pre-management fees & after the value of franking credits. Elstree Hybrid Fund (Chi-X: EHF1) will adopt the same investment strategy as the Elstree Enhanced Income Fund (unlisted wholesale fund for sophisticated investors).

TRADING INFORMATION

Exchange Traded Products can be bought or sold during normal trading hours on Chi-X, and trade just like shares.

EXCHANGE	Chi-X
CHI-X CODE	EHF1
TRADING HOURS	10AM – 4:20PM AEST
BLOOMBERG CODE	EHF1.AU
IRESS CODE	EHF1.CXA
IRESS INAV CODE	EHF1INAV.ETF

FUND MANAGEMENT

DISTRIBUTIONS	QUARTERLY Initially Moving to MONTHLY
PERFORMANCE TARGETS	3%-4% Above Cash Rate
MANAGEMENT FEE	0.60% + GST When Fund < \$100M 0.55% + GST When Fund > \$100M
FUND EXPENSES	Capped at 0.20% + GST
BENCHMARK	SOLACTIVE AUSTRALIAN HYBRID INDEX
FUND INCEPTION	Est. DEC 2020
INVESTMENT MANAGER	ELSTREE HYBRID MANAGEMENT PTY LTD

Past performance is not an indicator of future performance. The after fee outcomes for the Elstree Hybrid Fund may differ from Elstree Enhanced Income Fund due to a number of factors, including without limitation the difference in fees, the size of the portfolio, timing of securities transactions and the size and frequency of applications and redemptions of the funds.

Contact

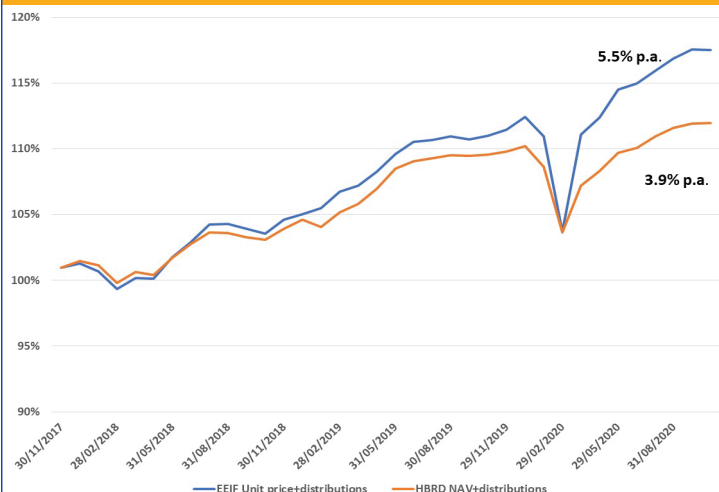
Norman Derham
norman.derham@eiml.com.au
0425 749 215

Michelle Morgan
michelle.morgan@eiml.com.au
0414 443 033

The chart below shows the cumulative performance of the Elstree Enhanced Income Fund (EEIF) and Betashares Hybrid Fund (HBRD)

**For the 3 years to 30/11/2020

CUMULATIVE PERFORMANCE



Data for both Elstree and HBRD does not include the value of franking credits and is after fees.

TOP 5 INVESTMENTS

SECURITY

ANZ CN 4 (ANZPG)	Increased our holding this month when we saw new issue induced weakness in the secondary market
COMMONWEALTH BANK PERLS 3 (CBAPD)	Good combination of yield, low volatility and liquidity
NAB CN3 (NABPF)	One of the longer duration hybrids which will outperform if margins fall
NAB CN4 (NABPH)	We secured a large allocation to this underpriced new issue. Long dated and should perform well as margins fall
WESTPAC CN5 (WBCPH)	We think the 4-5 year maturity hybrids are a sweet spot

Elstree Hybrid Fund Benefits

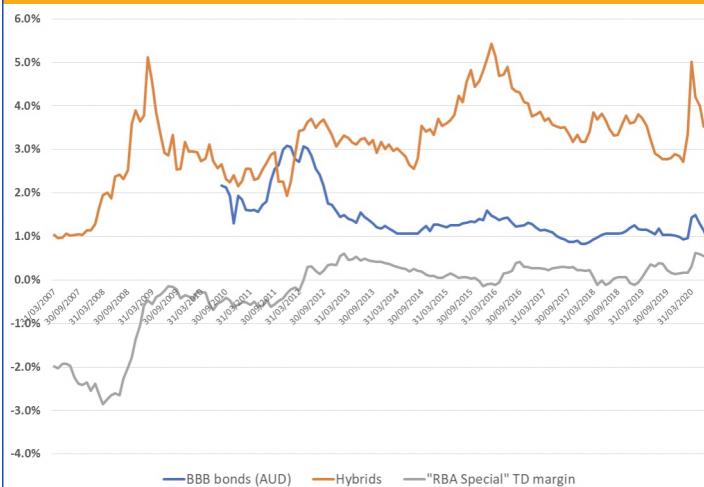
- Returns slightly less than equity markets with much lower risk
- Outperformance over cash, the hybrid market and competitors
- Professionally managed by Hybrid market experts
- Portfolio size will be capped to maintain performance
- Regular income stream (quarterly, moving to monthly)
- Extensive risk management experience
- Superior liquidity and diversification to a portfolio of a small number of hybrids, with low levels of volatility

MARKET COMMENTARY

“Market remains good value”

The chart below shows margins over bank bill of the last issued major bank hybrids, AUD BBB rated securities and Term Deposits (margin to bank bill). BBB rated securities have fewer risks than major bank hybrids + Term Deposits in most circumstances offer a government guarantee, so margins are not directly comparable.

MARGINS TO BANK BILL



“We think margins are likely to fall resulting in good returns”

The drivers of this are:

- There is already a shortage of “safe” income alternatives and this will get more pronounced.
- The RBA has indicated that cash rates will remain at 0.1% for the next 3 years
- Banks are awash with cash. They most likely will not issue bonds to the wholesale market in the next 12 months and will repay maturing bonds.
- This will lead the natural buyers of bank bonds (insurers, super funds etc) to chase alternatives and margins on BBB rated bonds are likely to be compressed to their lowest ever levels.
- Term deposit rates will continue to fall due to decreased bank demand for funding.
- The lower margins on safer investments will encourage some movement to higher risk, higher return securities such as hybrids.
- Hybrid margins are not materially different to their post GFC average and have scope to fall.

Disclaimer

Elstree Investment Management Ltd (ABN 20 079 036 810, AFSL 22572) will earn fees for making the Fund available to investors.

The information contained in this Fact Sheet is general in nature and does not take into account any particular investors personal circumstances, objectives or needs. It is not personal financial product advice. Chi-X have approved the Elstree Hybrid Fund for quotation on Chi-X. A Product Disclosure Statement (“PDS”) has been lodged with ASIC. Investors should read the PDS that relates to the Elstree Hybrid Fund prior to making an investment decision, with or without the assistance of their professional legal, accounting and financial advisers. Elstree is solely responsible for the contents of this Fact Sheet. The contents of a PDS & this Fact Sheet are subject to change and Elstree makes no warranty, express or implied, as to the completeness of any statement contained herein nor does it represent that this email contains all of the information that an investor may require in order to assess the merits of an investment in the Elstree Hybrid Fund. The distribution of this Fact Sheet or any other material relating to Elstree Hybrid Fund, including a PDS, to persons outside of Australia may be restricted by law and any person who comes into possession of such documents should seek their own advice on, and observe any such restrictions. Data in this Fact Sheet has been sourced from external parties believed to be reliable and has not been verified. Accordingly Elstree (and their directors, officers, consultants and employees) makes no warranty as to the accuracy or validity of any of the statistics quoted. To the extent permitted by law none of these parties are liable for any loss or damage arising from reliance on the content of this material. © Copyright 2020 [Elstree].