

INVESTMENT UPDATE

AUGUST 2021

Welcome to the Elstree Hybrid Fund (EHF1) Newsletter.

Elstree Hybrid Fund (Chi-X: EHF1) produced a return of -0.24% during the month, around 0.4% less than index returns of 0.18%. Since inception the fund has returned 1.9% (after fees) which is slightly below index returns, but well above sector income levels. The underperformance this month is entirely attributable to the fall in price of Crown Notes (see below)

Returns of the Fund, the Elstree Hybrid Index and Bank Bill/Term Deposit returns are summarised in the performance table below.

Performance figures as at 31 July 2021:

Performance as at 31 July 2021	1 MONTH	3 MONTHS	1 YEAR (p.a)	3 YEARS (p.a)
ELSTREE HYBRID FUND NAV + FRANKING (EHF1)*	-0.24%	0.9%		
ELSTREE HYBRID INDEX (P.A.) **	0.18%	1.0%	6.8%	5.7%
BANK BILLS	0.0%	0.0%	0.1%	0.9%

* Elstree Hybrid Fund (EHF1) Investment Performance is returns after fees and before the value of franking credits.

** Elstree Hybrid Index include the value of franking credits

Top Holdings & contributors to returns:

Security	Return contribution	Security	Return contribution
WBCPJ	0.06%	CBAPJ	0.06%
NABPH	0.05%	CBAPG	0.05%
ANZPI	0.05%	WBCPH	0.04%

Market Commentary

After a strong June, the market had a hiatus month with the index in negative territory for most of July before some end of month buying produced an income like return for the month. The previously announced ANZPI issue proved popular with investors receiving only c25% allocations in the bookbuild and shareholder allocations also pared back. It finished the month at \$102.30 which reflected a margin of 2.77% which was around 0.25% tighter than the issue margin.

The Crown Notes (CWNHB) position detracted around 0.28% from portfolio returns, due to an 11% drop in the hybrid price over the month. We held around 5% at the start of the month and around 3.6% at the end. Clearly, Crown had been in the news for months, but both hybrid and equity prices had held up, mostly because investors recognised the value of the casino licence which underpinned the equity price, and the low levels of debt, which in turn underpinned the hybrid price.

The Finkelstein Royal Commission resulted in some equity investors becoming skittish and the concerns affected the hybrid. We think the main issues for the hybrid are that the credit remains strong (Moody's expects that CWN would be capable of supporting an investment grade credit rating profile even if the gaming licences were lost), and that debt remains low (one analyst expects CWN to generate enough cashflow from Crown Sydney unit sales and operations to enable repayment of all debt by 2023). Under these conditions, we think the ultimate value is still clearly \$100, although equity volatility begets hybrid volatility. At some stage, if the situation develops as we expect, we will increase weightings again and if this occurs, we will have added value over the episode (albeit at the expense of some volatility).

News & Media

Elstree Hybrid Fund (EHF1) has been mentioned in the following articles throughout April - July, many of which are educational in nature.



- [How Hybrids fit into 2021 Income Portfolios](#) – Campbell Dawson | Elstree Hybrid Fund
- [The Hitchhiker's Guide to Hybrids \(Part 1\)](#) – Bella Kidman | Livewire Markets
- [This is the secret to a diversified portfolio \(Part 2\)](#) – Bella Kidman | Livewire Markets
- [The forgotten asset class presenting exciting opportunities](#) – Bella Kidman | Livewire Markets
- [How do Hybrids perform under stress?](#) – Campbell Dawson | Elstree Hybrid Fund



- [Fascinating Hybrid Journey Last Year](#) – Campbell Dawson | Elstree Hybrid Fund



- [Hybrids remain attractive alternative for income generation](#) – Evergreen Ratings

More about Elstree Hybrid Fund (EHF1)

Elstree Hybrid Fund (Chi-X: EHF1) is an exchanged traded product or ETP. The fund is designed to allow retail investors to access the same successful and long-term investment strategy as our actively managed unlisted wholesale fund, the Elstree Enhanced Income Fund.

The Elstree Hybrid Fund is an ideal investment for investors seeking a cash or bank term deposit alternative investment that displays an acceptable and appropriate risk adjusted return outcome.

The Elstree Hybrid Fund has 'on market' liquidity provided by a market maker (Nine Mile). The iNAV which is estimate of the live NAV, is updated every 20 seconds.

Additional details can be found on the [Elstree Hybrid Fund website](#) or email [Norman Derham](#) or [Michelle Morgan](#) for further information.