

## INVESTMENT UPDATE

OCTOBER 2021

Welcome to the latest Elstree Hybrid Fund (EHF1) Newsletter.

### DISTRIBUTIONS ARE NOW MONTHLY

We recognise that investors like regular income and it was always our plan to change distributions from quarterly to monthly during the first year of the Fund. From October, distributions will be monthly.

### Returns

Elstree Hybrid Fund (Chi-X: EHF1) produced a return of 0.69%, better than the index return of 0.55%. In the 6 months since the fund was quoted, the Fund has returned 2.7% (after fees) which is above the benchmark return of 2.4%.

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 30 September 2021:

Performance as at 30 September 2021	1 MONTH	3 MONTHS	1 YEAR (p.a)	3 YEARS (p.a)
ELSTREE HYBRID FUND - NAV + FRANKING (EHF1)*	0.7%	0.5%		
ELSTREE HYBRID INDEX (P.A.) **	0.6%	0.7%	5.9%	5.3%
BANK BILLS	0.0%	0.0%	0.1%	0.8%

\* Elstree Hybrid Fund (EHF1) Investment Performance is returns after fees and after 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
SUNPG	0.11%	WBCPH	0.05%
RHCPA	0.08%	WBCPJ	0.04%
NABPH	0.07%	CGFPC	0.014%

### Market Commentary

The hybrid market had a strong September with a return that was well above income levels. The extra return was attributable to a fall in margins which resulted in prices on securities rising marginally.

We wrote last month that the weakness we had seen in July and August was attributable to investors expecting some of the larger banks to issue new hybrids ahead of the DDO commencement date in October. CBA was expected to issue to replace the \$1.5b CBAPE which was redeemable in October and there was some chance of NAB issuing. As it turned out, neither came to the market and the CBAPE was redeemed, so the market went from being potentially over-supplied to under-supplied. This resulted in investor buying and prices rose towards the end of the month.

Three securities commenced trading this month, Westpac Capital Notes 8, Suncorp Capital Notes Capital Notes 4 and Latitude Financial issued a 5-year security. We purchased some of the Westpac and Latitude Financial issues.

The Latitude issue was interesting. It's the first non-APRA regulated financial issuer since the GFC. Latitude is a large retail financier (if you bought anything at Harvey Norman or JB HiFi on credit, they financed you) with a long history and it is still owned 66% by a consortium (KKR controlled). It has a different risk profile to the Australian banks which are heavily weighted to mortgages. Latitude's assets are far riskier than mortgages and the lack of APRA regulation means that Latitude is more highly leveraged. There is more risk and "fatter tails" with Latitude than a bank, but the margin was OK and we took a small holding.

### Half-year fund review

EHF1 was quoted on Chi-X on 31 March and we thought it might be interesting to review some of the interesting aspects of the last six months. Overall, the Fund did what it promised on the label, with above cash returns with limited extra volatility.

- Returns were well over cash and investors who purchased EHF1 as part of a diversification process away from cash have done well. The market return of 2.7% is around 1% higher than income levels and reflects some capital gains from falling margins. Earlier in the year we thought that there was scope for margins to fall due to low supply and lots of demand from investors re-allocating cash. That trend eventuated. We expect a continuation of a trend towards lower margins which will result in further returns above income levels
- Market risk was as expected. There was a little volatility around July, and one month where there was a small negative return. With the exception of the Crown Note, there was no volatility in individual security prices.
- We added value to the Fund and outperformed other hybrid ETFs, despite our Crown Notes holding detracting from value. We expect to eventually recover more than the negative contribution that CWNHB contributed in June and July
- The Fund operated as we expected. The market making was effective and there was a constant \$0.02 buy/sell spread in operation for the whole period. The other aspects of the administration of the Fund were also satisfactory.

We'd like to thank the investors who made the choice to invest in EHF1; we hope you remain unitholders and that we can continue to deliver on the product.

## News & Media

Elstree Hybrid Fund (EFH1) has been mentioned in the following articles throughout the months of April - September, 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



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



- [New Hybrid ETF on Chi-X](#) – Staff Reporter | Financial Standard



- [Support for Elstree Hybrid Fund](#) – Staff Reporter | Money Management



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

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### **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.