

INVESTMENT UPDATE

NOVEMBER 2021

Welcome to the Elstree Hybrid Fund (EHF1) Newsletter.

Returns

Elstree Hybrid Fund (Chi-X: EHF1) produced a return of 0.84% during the month of October, outperforming the index by 0.19%. Since the fund was quoted, the Fund has returned 3.6% (after fees) which is above the benchmark return of 3.1%.

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 October 2021:

Performance as at 31 October 2021	1 MONTH	3 MONTHS	1 YEAR (p.a)	3 YEARS (p.a)
ELSTREE HYBRID FUND NAV + FRANKING (EHF1)*	0.8%	1.6%		
ELSTREE HYBRID INDEX (P.A.) **	0.7%	1.2%	6.2%	5.7%
BANK BILLS	0.0%	0.0%	0.0%	0.7%

* 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
CWNHB	0.25%	BOQPE	0.06%
WBCPH	0.10%	OBLHA	0.05%
CBAPJ	0.07%	NFNG	0.05%

Market Commentary

Once again, we had a strong month with returns in excess of the income yield. This saw margins fall to levels not seen since 2011.

The major catalysts of the strength we have seen over the past few months have been the continued search for yield in the face of zero cash rates and the strong equity market which has contributed to lower investor risk aversion. Despite the RBA announcing that it won't be continuing its practice of targeting a 3-year bond yield of 0.10%, it has indicated that it doesn't expect to increase cash rates next year.

The Finkelstein Crown Casino Royal Commission reported during the month and the result was slightly better than the market had anticipated. Many had feared that Crown would lose its licence, but the Commission recommended that Crown retain the licence but an overseer be appointed for 2 years. If Crown had not proved itself to be a suitable manager after that period it would lose the licence. This may not be a simple task. For example, the Commission heard that Crown need to employ another 150 people to run an improved anti-money laundering process and it's not clear that the systems will be able to be upgraded by 2023.

In any case the ratings agencies all affirmed their investment grade credit ratings for Crown, noting the relatively low debt levels and strong liquidity, notwithstanding the extra costs of complying with the Royal Commission recommendations.

Issuer Commentary- AMP

AMP has had a terrible 21st century. Once the largest Life Insurer in Australia and the "Fifth Pillar" (after the 4 banks) and an Australian institution, the share price has now lost around 90% and it has devolved into a small bank, an Asset Management operation it wants to sell off, and a large financial planning group.

As it committed its two-decade suicide note, its capital needs changed. Life insurers need lots and lots of capital to ensure they can fulfill their obligations. We think Life insurers are a great proposition for a hybrid investor as the capital requirements are stricter than banks and they also do not have liquid liabilities (compared to banks where depositors can demand repayment overnight). So, they are generally very well capitalised, very boring entities which is perfect for debt/hybrid investors.

And so, it has happened. The AMPPA security issued in 2015 has returned 6.5% pa at a time when the equity fell by around 80%.

Recently AMP announced that it had sold the remaining 20% of the old AMP Life operation that it still owned and this further reduced the amount of capital that AMP needs. Given the entirely different nature of operations, we also expect their capital needs and profile as a hybrid issuer to change.

The AMPPA issue is approaching a reset date in December and we expect it to be repaid. They also have another hybrid on issue and issuance in future will be driven by the needs of AMP Bank. We also expect AMP to target a lower credit rating to allow more earnings per share leverage.

News & Media

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



- [Hey boomer, first home buyers and all the fuss](#) – Norman Derham, Elstree Hybrid Fund
- [Fascinating Hybrid Journey Last Year](#) – Campbell Dawson | Elstree Hybrid Fund



- [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

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.