

INVESTMENT UPDATE

DECEMBER 2021

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

Returns

Elstree Hybrid Fund (Chi-X: EHF1) produced a return of 0.31%, 0.26% higher than the market return of 0.05%. Since the fund was quoted, the Fund has returned 3.9% (after fees) which is above the benchmark return of 3.2%.

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

Performance figures as of 30 November 2021:

Performance as of 30 November 2021	1 MONTH	3 MONTHS	1 YEAR (p.a)	3 YEARS (p.a)
ELSTREE HYBRID FUND NAV + FRANKING (EHF1)*	0.3%	1.9%		
ELSTREE HYBRID INDEX (P.A.) **	0.0%	1.3%	6.1%	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 and has no fees

Top Holdings & contributors to returns:

Security	Return contribution	Security	Return contribution
CWNHB	0.19%	NFNG	0.04%
MQGPD	0.05%	RHCPA	0.03%
AMPPB	0.04%	BOQPF	0.02%

Market Commentary

The hybrid market had a relatively quiet month after the last two months where we saw good capital gains each month. December is usually a strong month with only three of the last 12 Decembers producing returns of less than 1%. We'll wait and see if the tradition continues.

Equity markets were slightly weaker with Omicron fears overcoming the effect of the continuation of the fiscal and monetary stimulus we're seeing. Late in the month, Fed Head Powell, wound back the "inflation was transitory" message and the perception of higher interest rates did not assist equity markets.

Fund returns were aided by good performances by the Crown Notes (CWNHB) (5.2%), AMPPB (2.0%) and NFNG (4.03%). Crown notes rose after Blackstone came back with a revised conditional takeover offer of \$12.50. It was initially rejected, but analysts expect that there will now be an auction for Crown. There are lots of incentives for a successful acquirer to pay back the notes, so they rose to the high \$90s, levels, which were last seen in May before the judicial inquiries started having their effect on share and hybrid prices.

Issuer Commentary - Nufarm

Last month we described the terrible two decades that AMP had endured. This month we'll do the same with Nufarm, which is another cursed company where the share price has potholed, but the hybrid has performed well. Nufarm's share price has risen and fallen for the past decade, but it is now 75% off its all time high in 2007. Adding in some dividends, the total return since 2007 is around (-6%) p.a. compared with the hybrid return of 7.7% p.a. since that period.

The Nufarm Note (NFNG) was issued in 2006 when Nufarm was an investment grade rated entity. It paid a margin of 1.9% and originally envisaged a call at par in 2011, but by the time that came, NUF was a different entity with a below investment grade rating and some leverage and business problems. So, the note was extended to a perpetual with a margin of 3.9%.

Since the NFNG issue, NUF has leveraged up and then reversed and sold large parts of the company. It's had the profitability of what was its prime product decimated by Chinese competition. It's had governance issues and, of the issuers we track, it has had the largest number of shock profit downgrades. Over that time, it has paid every coupon, despite the hybrid prices getting down to the \$50s in 2010.

We've typically never held much of the security for the following reasons.

- The rating isn't great
- Despite the issue size, it is surprisingly illiquid, and liquidity is important for us in sizing positions
- The continual surprise profit downgrades and our risk management protocols means we often have to sell after the downgrade. In many cases we never got to repurchase

Our current allocation is below 1%, but at some stages it has become great value and we have increased weightings at some stages in the past.

NUF has recently been on a purple patch (for NUF anyway). Credit ratings are improving, debt is low, profitability is currently good and for equity holders there seems to be some interesting blue sky parts of the business.

The NFNG price has improved recently, and the security has returned 10.3% this FY. The parent equity price is flat.

News & Media

Elstree Hybrid Fund (EHF1) has been mentioned in the following articles throughout the last six months, 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

More about Elstree Hybrid Fund (EHF1)

Elstree Hybrid Fund (Chi-X: EHF1) is an Exchange 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.