

ELSTREE HYBRID INDEX GOVERNANCE AND CONSTRUCTION RULES

GOVERNANCE

The use of the Elstree Hybrid Index as a benchmark for the Elstree Hybrid Fund raises conflict of interest issues for the Responsible Entity (RE). These conflicts of interest are

-The RE may structure the index such that the performance of the Fund is better than the Index

-If there is an inability to reconcile Index performance, there is the potential that for the RE to publish incorrect performance data.

The RE has instituted the following measures to mitigate the conflicts of interest. They are consistent with the RE's Conflict of Interest Policy.

- i) The index composition will be entirely rules based. There will be no scope for the RE to influence which securities are included or excluded
- ii) The index constituents, their weightings and their returns for the periods in which the index is used as a benchmark for the Elstree Hybrid Fund will be publicly available. Any interested party will be able to verify index returns by applying the security return to the security weighting
- iii) The benchmark calculation process will be included as part of the Compliance process. The RE will report to the Compliance Committee on any issues relating the benchmark calculation and the benchmark calculation process will be addressed as part of the GS007 audit. Should there be any issues, unitholders or other interested parties will be able to escalate enquiries via the usual processes.

INDEX CONSTRUCTION

The Elstree Hybrid Index has been calculated since 2003. To ensure the Elstree Hybrid Index operates independently of the investment manager and others whose performance it is used to benchmark the following measures have been undertaken.

-It is a rules based index and there is no discretion as to what can or cannot be included.

-The index, construction rules, constituents and its returns are fully transparent and will be fully disclosed. Any investor or market participant will be able to verify the index returns.

-If there are any queries that are not satisfied by the data that will be available on the website, we will endeavour to answer them.

If any queries are not resolved in a satisfactory manner, details of the issue can be sent to info@ElstreeHybridFund.com.au where they will be subject to usual Compliance Committee procedures in regards to complaints.

Index Eligibility

The Index has operated with the following criteria since 2003.

It is comprised of ASX listed fixed interest type securities (known or knowable redemption amounts and known or knowable coupons/distributions) with the following criteria

- a) If issued by an APRA regulated entity, no minimum issue size
- b) If issued by a non APRA regulated entity, a minimum issue size of \$100m
- c) If issued by a non APRA regulated entity that is a property trust/REIT, a minimum issue size of \$50m.
- d) If the security has equity optionality via an attached warrant/convertible status, the security is withdrawn from the index when the underlying equity price rises above the option strike/conversion level

An eligible security is included into the index when it becomes eligible on the day the security is listed at the issue price.

Securities remain in the index until withdrawal. Withdrawal occurs on redemption, equity optionality event or liquidation/administration event /delisting. A partial redemption will result in the security face value issue size being reduced in index calculations. The withdrawal amount is based on the redemption value, or in the case of equity optionality at the last price, or in the case of administration/liquidation/delisting an estimate of the market value at the time.

Return calculations

Index returns are calculated daily. They are a function of

- Change in market value of index based on end of day prices (less any cashflows relating to inclusions or withdrawals)
- The value of dividends and franking credits on securities that went ex-interest/distribution on the day
- Where there is a temporary suspension of trading in the security and the market price is not updated, there is no adjustment to the market price within the index
- Where there is a more permanent suspension of trading in a security, an estimate of the market/redemption value will be undertaken.

The daily returns are chained to produce a monthly return.

The daily return is a market weighted measure of price changes and income entitlements. Effectively the daily index return is a market weighted average of individual security returns and all index cashflows are reinvested on a daily basis

Data Disclosure

The following data will be disclosed on www.ElstreeHybridFund.com.au

-Index construction rules

-Index constituents by market weight at end of month prices.

-if there is a new issue/redemption during the month, an updated list of market constituents whenever there is a change

-Daily index levels

-Security monthly returns

Examples

- i) An Australian bank issues a \$900m face value hybrid which is due to list on 20 September 2021. The security end of day price on 20 September 2021 is \$101.25

The relevant entries are

- The security is entered into the index at a cost of \$100
- The end of day index return includes the increase in value of the security to \$101.25 (in addition to dividends/distributions and changes in values of other securities)

- ii) A non APRA regulated corporate has an existing ASX Listed Fixed Interest security which has a face value of \$50m. It is not an eligible security as it has an issue size of less than \$100m. It issues a further tranche which increases the face value to more than \$100m and the new securities commence trading on 21 September

The relevant entries for 21 September are

- The security is entered into the index at the issue price of the further tranche times the face value of the total issue
- The end of day index returns includes the change in value of the security from the issue price to the end day closing value.

- iii) An issuer undertakes a full buyback/redemption of an existing issue. For example, on 22 September 2021 an issuer fully redeems an issue by payment of the principal sum

The relevant entries are

- The security is removed from the index at the redemption price times the face value of the issue

-The end of day index returns includes the change of value of the security from the previous days value to the removal value

iv)

An issuer undertakes a partial buyback/redemption of an existing issue. For example, on 23 September an issuer redeems \$300m of an existing \$500m issue at par value.

The relevant entries are

-The existing issue is reduced to \$200m.

The end of day index values includes the change in value of the security from the previous days value and the sum of the value a redemption of \$300m at the redemption price