

## INVESTMENT UPDATE

JANUARY 2022

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

### Returns

Elstree Hybrid Fund (Chi-X: EHF1) produced a negative return of (0.48%) in January, 0.04% better than the market return of (0.52%). Since the fund was quoted, the Fund has returned 4.5% (after fees, including franking) which is above the benchmark return of 3.7%.

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 31 January 2022:

Performance as of 31 January 2022	1 MONTH	3 MONTHS	1 YEAR (p.a)	3 YEARS (p.a)
ELSTREE HYBRID FUND NAV + FRANKING (EHF1)*	(0.5%)	0.9%		
ELSTREE HYBRID INDEX (P.A.) **	(0.5%)	0.6%	4.6%	5.3%
BANK BILLS	0.0%	0.0%	0.0%	0.6%

\* 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
NABPH	(0.10%)	AYUHC	0.02%
ANZPI	(0.07%)	OBLHA	0.02%
WBCPJ	(0.04%)	CBAPD	0.01%

### Market Commentary

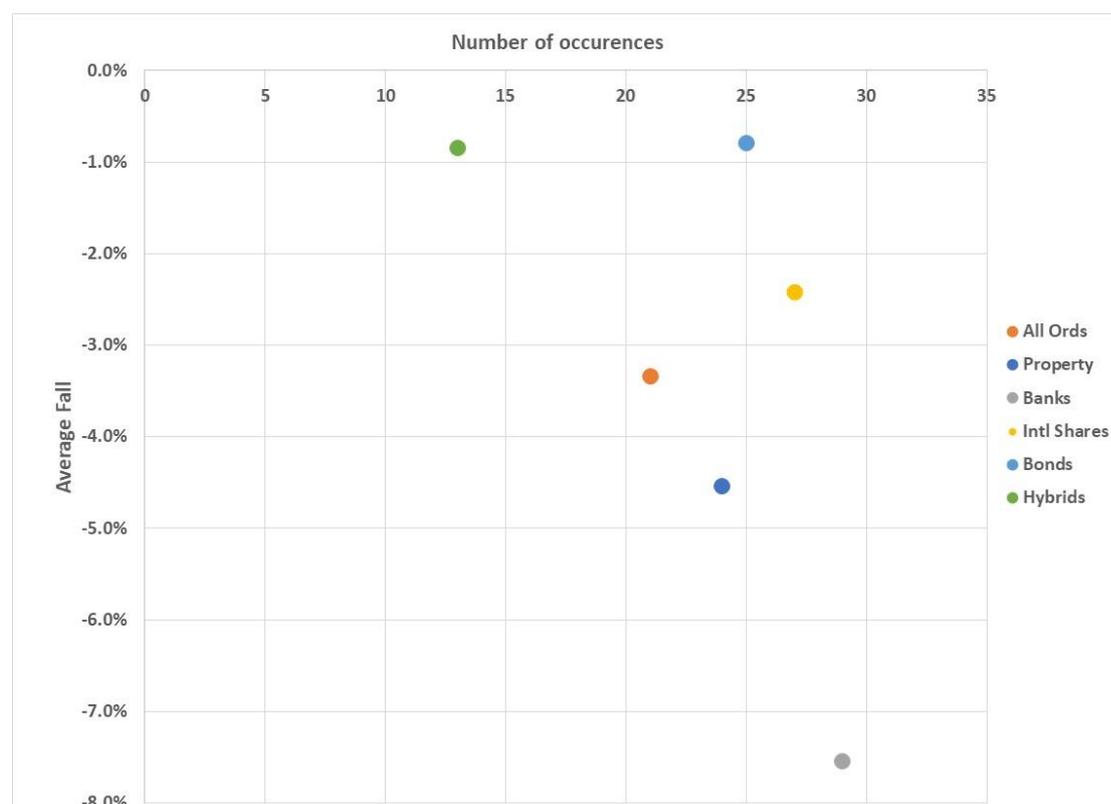
The hybrid market gave back some of the strong returns we saw in December. We mentioned last month that we were a little surprised at the strength of the market and in January we took the opportunity to increase our cash levels a little. When you compare performance over the last 2 months both the market and the Fund have produced a return of 0.6%, which is around income levels.

The specific catalysts for the weakness were weaker equity markets with the All Ords entering “correction” territory with a >10% fall since the highs seen late last year. Material equity market weakness often has a temporary effect on hybrid prices and January was no exception.

The other interesting factor was the markets expectations that there would be 2 new hybrid issues by ANZ and the CBA to replace their issues which reset/redeem in March. **Last year ASIC unveiled its new Design and Distribution Obligation (DDO) guidelines which we think will materially reduce the number of investors who will be able to participate in IPOs of hybrids.** This will impact the market and we think that new hybrid IPOs will need to be offered at higher margins to attract investors.

### When Hybrid markets weaken

In all investments there is a trade-off between risk (ie negative returns) and higher than cash returns over the long run. Hybrids fit in the low to medium risk segment and are less risky than equities but riskier than cash type investments. The chart below shows how often there are negative months and how bad they are. The horizontal axis shows the number of negative months over the last 5 years (including Covid related moves) with the horizontal axis showing the average loss. It shows one of the attractive aspects of hybrids compared to other asset classes. The number of losing months is less than other asset classes and the average loss is pretty small. And most recoveries take only a few months. Compare that to an insomnia inducing investment in the All Ords which has a losing month every 3 or so months and on average you lose over 3% each time it happens. So, while a negative month for hybrids is non pleasant or common, they soon get back to work generating income.



## 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.