

## INVESTMENT UPDATE

March 2022

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

### Returns

Elstree Hybrid Fund (Chi-X: EHF1) produced a negative return of 0.08% in March, 0.28% lower than the market return of 0.20%. Since the fund was first quoted on March 31 2021, it has returned 4.6% (after fees, including franking). This is above the benchmark return of 4.1%.

Returns for the month were dragged down by selling of certain securities before 2 new hybrid issues were priced. There was some weakness in the longer duration hybrids.

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 March 2022:

Performance as of 31 March 2022	1 MONTH	3 MONTHS	1 YEAR (p.a)	3 YEARS (p.a)
ELSTREE HYBRID FUND NAV + FRANKING (EHF1)*	(0.1%)	(0.3%)	4.6%	n/a
Distribution (cpu) (% franked)	2.2 cents (79%)	3.5 cents (61%)	14.2 cents (58%)	n/a
ELSTREE HYBRID INDEX (P.A.) **	0.2%	(0.1%)	4.1%	5.0%
BANK BILLS	0.0%	0.0%	0.0%	0.5%

\* Elstree Hybrid Fund (EHF1) Investment Performance is return after all fees and after the value of franking credits.

\*\* Elstree Hybrid Index includes the value of franking credits.

### Top Holdings & contributors to returns:

Security	Return contribution	Security	Return contribution
RHCPA	0.06%	AMPPB	0.02%
NABPE	0.03%	ANZPJ	0.01%
NFNG	0.03%	CBAPD	0.01%

### Market Commentary

Hybrid markets have rolling negative quarterly returns once every two or so years; the last episode was around Covid in 2020 and prior to that in 2018. We just had another one; albeit small, and it looks like some of it will be reversed this month (April).

The drivers for the weakness were the low margins at the start of January, a little bit of turbulence arising from uncertainties about the Ukraine/oil price etc and some weakness in March as the market positioned itself for 2 new issues by ANZ and CBA. The 2.7% and 2.75% issue margins were slightly below the post GFC average of c3.1% but were above the c2.3% secondary market margins that we saw at the end of 2021. Typically, markets are stronger after new issues, and we expect that will occur again.

The biggest event in investment markets this month has been the increase in bond yields and expectations that cash rates will rise shortly. The bond market and most bond funds have posted -8% returns since the start of the year after the market determined that local cash rates are going to rise sooner and higher than previously expected. Hybrids are almost all floating rate and will benefit enormously from higher cash rates. On current market expectations of cash rates of >2.5% by the end of 2022, the income yield of portfolio of hybrids will be over 5% p.a. We expect that margins will remain relatively stable, so that should translate into total returns (including capital movements) of over 5%.

### EHF1’s first birthday: that was the year that it was

Hybrids are important in portfolios for their low volatility and moderate returns and the first year of the Elstree Hybrid Fund was testament to that. Fund returns (NAV + value of franking credits) were 4.6% which was handily above the sector return of 4.1%. They were also not very volatile. The chart below shows the hybrid price index(not including income) during the year.



Hybrids were true to label last year. Return volatility was low @ circa 1.5% p.a, the index had 2 negative months during the year (we expect 1.5 per year) and returns were a combination of mostly income of cash rates + c2.5% with a little capital variation. Typically, hybrids lag equities when they have big months, but are far less volatile when equity markets drawdown. This was the case once again last year with equities falling around 12% during the inflation/interest rate scare of late 2021 and hybrids

having a flat month in November. The driver of the capital changes over the year was largely a contraction in margins from 2.8% in March 2021 to a low of 2.3% in December and then a slight increase over the last quarter.

The Elstree Hybrid Fund outperformed the benchmark and other hybrid Funds. The largest hybrid ETF (Betashares Active Australian Hybrid Fund - HBRD) produced a return of 3.1% (NAV + franking), around 1.5% lower than EHF1. There were 3 other hybrid ETFs launched during the year that do not have 12month performance records, but EHF1 performance was still comfortably above those funds.

The outperformance occurred from some beneficial individual stock selection and from a portfolio that outperformed as traded spread margins contracted.

From the viewpoint of our unitholders, the next 12 months will be very interesting. Markets have brought forward their views of interest rate rises and are now expecting BBSW to be 2.7% by December. With current margins of c2.5%, this means that hybrids will generate income levelsof >5% on an annual basis and we expect a continuation of low volatility. This is not to be sneezed at. Equity returns for the 2010/2020 decade were 7.9% p.a. with 2 drawdowns of greater than 25% and drawdowns of c15% every second year.

#### News & Media

Elstree Hybrid Fund (EFH1) 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



- <https://www.firstlinks.com.au/hey-boomer-first-home-buyers-fuss>
- <https://www.firstlinks.com.au/bank-hybrids-equity-market-weakness>
- <https://www.firstlinks.com.au/ddo-change-hybrids-bank-treasurers-nightmare>
- [Fascinating Hybrid Journey Last Year](#) – Campbell Dawson | Elstree Hybrid Fund

## FINANCIAL STANDARD

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

## MONEYMANAGEMENT

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

## ADVISER VOICE

Education and information  
for financial advisers

- [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.

#### Disclaimer

The information and opinions contained in this report have been obtained from sources of Elstree Hybrid Investment Management Pty Ltd (ACN 645 044 579) believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate or complete and it should not be relied upon as such. Information and opinions contained in the report are published for the assistance of recipients, but are not relied upon as authoritative and may be subject to change without notice. Except to the extent that liability cannot be excluded, Elstree Hybrid Investment Management Pty Ltd does not accept liability for any direct or consequential loss arising from any use of material contained in this report