

RETURNS

The Elstree Hybrid Fund (“EHF1”) return for February was 0.76%, which was marginally less than the market return. There were 2 new issues announced during the month (ANZ and BEN) and IAG advised they would also issue (and actually announced the issue on 4 March). Both the new issues were extremely well supported with allocations of 10% of the bid amount for the BEN hybrid. While we normally expect softer markets around issues, the extent of demand limited the weakness. The driver behind investor interest are the c7% yields on hybrids, which are as high as they have been since 2010. And there are currently few worries about the viability of Australian banks at the moment. Bank share prices have been on a tear since mid 2023 with returns of 20%-30%, so there’s not a lot to be worried about.

PERFORMANCE FIGURES

Performance as of 29 February 2024	1 month	3 months	1 year (p.a)	Since Inception (p.a.)
ELSTREE HYBRID FUND NAV + FRANKING (EHF1)	0.8%	2.2%	7.4%	5.8%
Distribution (cpu) (% franked)	\$0.016(43%)	\$0.077(65%)	\$0.291(69%)	
Expected 3 month Income Distribution		\$0.058(100%)		
ELSTREE HYBRID INDEX (P.A.) *	0.8%	2.2%	7.1%	5.3%
BANK BILLS	0.3%	1.1%	4.1%	2.0%

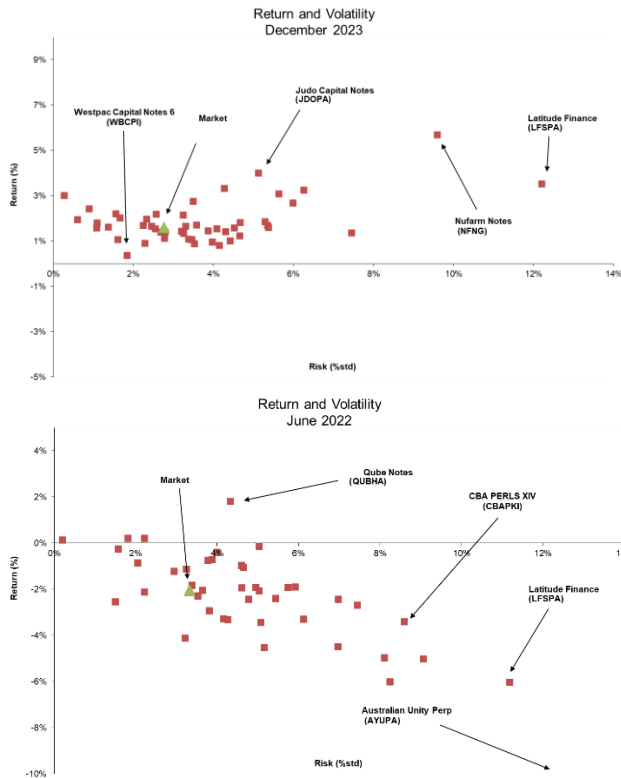
* Elstree Hybrid Index includes the value of franking credits.

WHY HAVE RETURNS BEEN SO CONSISTENT?

Hybrids(and Elstree Funds) have been one of the best performing investments for the past decade. The table below shows the return data for the Elstree Enhanced Income Fund (pre fee returns). The Elstree Hybrid Fund has followed the same strategy since listing in March 2021.

	1 year	3 years	5 years	7 years	10 years
Return	8.1%	6.4%	7.3%	7.4%	7.0%
Volatility	3.0%	3.0%	5.1%	4.5%	4.2%

In hindsight, the consistency and level of returns is exceptional, especially with the low level of volatility. Equity type investments usually have volatility in the range of 12%-15%. But how does the day to day movements in security prices translate into the excellent long term returns shown above. In the 2 charts below we’ve shown what quarterly returns look like. We’ve chosen the December 23 quarter which was pretty normal and June 22 quarter, which was the last bad (but



That's a normal quarter. The Elstree Hybrid index return of 1.6% (or 6.4% annualised) reflects the BBSW of c4%, the margin on the hybrids the funds own of c2.5%. Within that result there is a wide range of returns and risks for individual hybrids, but the correlation works its magic, and investors get a low volatility result

June 2022 was a bad quarter. Investors started to get worried about inflation and interest rates and the All Ordinaries fell over 12% after being down 15% in mid-June 2022. The hybrid return of negative 2.0% reflected an income yield of 0.8% (BBSW of 0.4% and margin of 2.7%) and capital movements of -2.8%. But a diversified holding did a lot better than many of the securities.

So, what do we think the chart shows ?

-Diversification continues to work. And it has worked best during weak and volatile markets (which is when you need it). If you buy a few hybrids, you are going to get volatile returns on a monthly or quarterly basis. In June 2022, a number of the more volatile (higher yielding hybrids) produced double digit write downs. Even some of the longer maturity major bank hybrids fell by more than 5%. The Fund and the index produced a negative return, but it could have been a lot worse, but diversification helped enormously. And even a bad quarter is way less volatile than equities. The June 2022 Hybrid volatility was 3% annualised. Equity market volatility was in excess of 15%.

-Bad quarters are rare in hybrid markets and are quickly reversed. Since 2010, there has only been 5 quarters where hybrids have produced negative returns of greater than -0.5%. And on every occasion that has more than been reversed the next quarter.

So investors should appreciate the lack of volatility over the longer term and given the expectation for cash rates to remain at higher levels than the late 2010s/Covid era, longer term returns look OK as well.

BBSW WATCH

Almost no change this month, even though there has been more commentary about cuts in rates. The US has been a bit more volatile with 1 year bond rates increasing by 0.25% over the month ie the market is now expecting 2 rate cuts in 2024, down from 3 cuts last month. The expected US recession has taken much longer to arrive than almost any commentator expected.

	ACTUAL 90DAY BBSW	HIGHEST EXPECTED 90DAY BBSW RATE	EXPECTED 2 YEAR AVERAGE BBSW	DATE OF HIGHEST 90DAY BBSW RATE
28 February 2022	0.1%	2.6%		June 2024
30 June 2022	1.8%	4.0%		June 2023
30 September 2022	3.1%	4.5%		December 2023
31 December 2022	3.3%	4.3%		December 2023
31 March 2023	3.6%	3.6%		December 2023
30 April 2023	3.7%	3.9%		December 2023
9 June 2023	4.2%	4.6%		December 2023
11 October 2023	4.1%	4.3%		June 2024
13 December 2023	4.3%	4.3%		June 2024
10 January 2024	4.3%	4.4%		March 2024
7 February 2024	4.3%	4.3%	4.0%	March 2024
6 March 2024	4.3%	4.3%	4.0%	March 2024

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.



- <https://www.livewiremarkets.com/wires/is-the-asx-home-to-the-longest-dividend-paying-company-in-the-world>
- [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



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



- [Hybrids remain attractive alternative for income generation](#) – Evergreen Ratings



- <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



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

More about Elstree Hybrid Fund (EHF1)

Elstree Hybrid Fund (CBOE Aust-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. 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](mailto:Norman.Derham) for further information.

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