

## RETURNS

January was a flat month for hybrids with the Fund return of 0.1% slightly above the market return of 0.0%. There were a couple of reasons for the flat return. Hybrids returned just under 2% in the previous 3 months and good periods are often followed by less good months. Equities momentarily lost their enthusiasm for the Trump trade in December and the All Ords lost c3%. Often there is a lagged response with hybrids. The 3<sup>rd</sup> and most intriguing influence were a consequence of APRA's decision to end the hybrid market. January saw 2 ASX listed, private debt vehicles launched, and we suspect there were some advisors and investors who were selling hybrids ahead of the launch to invest in the IPO. By time of writing in early February, it looked like the floats were going to be a big success with indications of up to \$600m allocations.

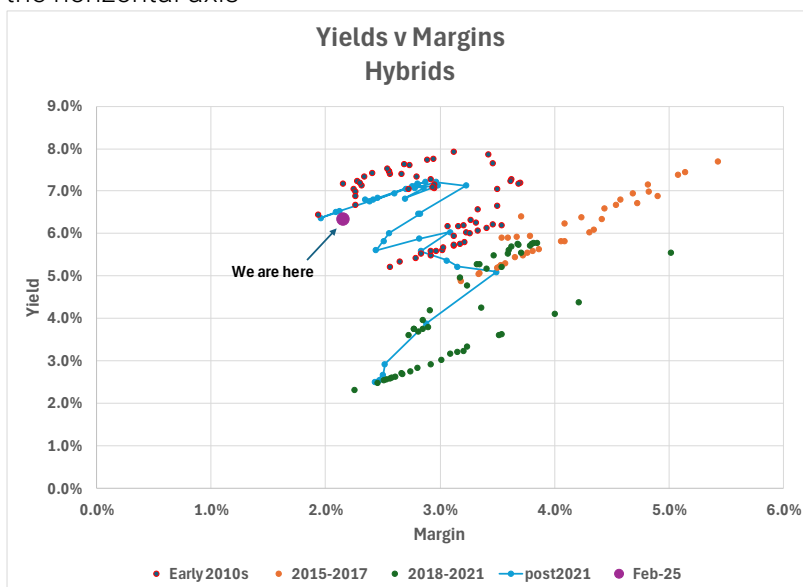
## PERFORMANCE FIGURES

Performance as of 31 January 2025	1 month	3 months	1 year (p.a)	3 years(p.a.)
<b>ELSTREE HYBRID FUND NAV + FRANKING (EHF1)</b>	0.1%	1.0%	9.9%	7.1%
<b>Distribution (cpu) (% franked)</b>	1.0c(15%)	7.6c(64%)	35.10c(56%)	
<b>Expected 3 month Income Distribution</b>		5.4c(94%)		
<b>ELSTREE HYBRID INDEX (P.A.)</b>	0.0%	1.0%	8.9%	6.6%
<b>BANK BILLS</b>	0.4%	1.1%	4.5%	3.3%

## WHAT WE ARE THINKING ABOUT THE MARKET

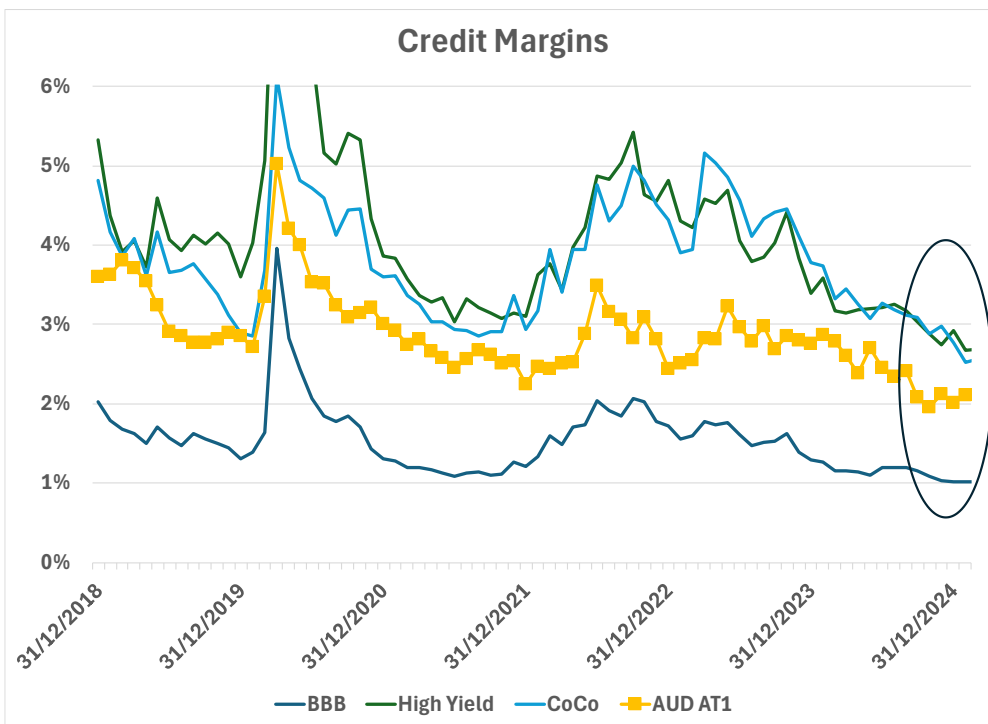
**TLDR; hybrids are good value now and we think we'll continue to get healthy returns**

Lots of commentators are saying that hybrids and other credit investments are too expensive and investors should be selling, or at least not buying. We disagree. The 2 charts below give an indication of what we are thinking about the hybrid market right now, and why we are not worried. The chart below shows hybrid yields (BBSW + margin) on the vertical axis and hybrid margins on the horizontal axis



Clearly margins are expensive, but the yields still very high in comparison to previous years. In addition, in most cases when we have seen yields at these levels, markets have been volatile and upset, and hybrid margins were much higher. It wasn't pretty in 2015-2017 with oil defaults, China problems etc and hybrids were twice as volatile as they are now. It wasn't easy. The other high yield period was in the post GFC era.

The chart below shows hybrid margins over the past 7 years, and we have circled the last 6 months. Over that period, you can see the fall in hybrid margins in September 24 (when APRA banned new hybrid issues) and margins going sideways/up while margins on the rest of the credit spectrum continued to fall.



For the reasons in the chart before, other credit margins continue to decrease as investors buy for the outright yield. The relative attractiveness of hybrids to better and lower credit instruments has improved as hybrids weakened and other credit strengthened. High yield and CoCo (European bank AT1) have tracked closely over the past 8 years and the hybrid/Coco/High yield margin is now at its lowest level since the middle of Covid. This is while we expect that a lack of new supply will see margins eventually contract.

We suspect that there is some selling of hybrids to fund subscriptions to the new credit LITs that have occurred (and will probably continue to occur).

In any case, we think the longer term outlook is for hybrid margins to continue to contract and we wouldn't be surprised if they reach post GFC lows in

## BBSW WATCH

Another good inflation number in early February saw almost all commentators start talking about a guaranteed rate cut at the February 18. Lots of other media headlines have this as the first of a number of cuts. Markets aren't quite as keen. The lowest BBSW rate expected by futures markets is 3.65% which is just a little more than 2 cuts and that is by December 25. Markets think inflation is still a worry in the medium term and that economic growth and employment are not sufficiently bad to justify a more "normal" easing cycle. As with last month, this is all good for hybrid owners who can expect the c5.75%-6.5% income returns over the next few years with limited volatility

	ACTUAL 90DAY BBSW	LOWEST EXPECTED BBSW RATE	EXPECTED 2 YEAR AVERAGE BBSW	DATE OF LOWEST 90DAY BBSW RATE
7 June 2024	4.3%		4.2%	
12 July 2024	4.3%		4.2%	
9 August 2024	4.3%	3.5%	3.8%	June 27
9 September 2024	4.3%	3.3%	3.7%	March 26
11 October 2024	4.3%	3.6%	3.9%	June 26
12 November 2024	4.3%	3.6%	3.8%	December 25
10 December 2024	4.3%	3.6%	3.9%	September 26
6 January 2025	4.3%	3.75%	3.9%	December 25
10 February 2025	4.3%	3.65%	3.8%	December 25

## 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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