Elstree
HYBRID FUND ACTIVE ETF (EHF1)

May 2025

INVESTMENT UPDATE

RETURNS

After April's weakness, we expected a higher return for hybrids in May than we received, especially after a 3% return from equities and healthy mainstream credit markets.
The market return of 0.12% was the consequence of further issuance of ASX listed credit vehicles, which results in some selling to fund the new investment. Metrics Master Income Trust (MXT) made a $315m placement, the Dominion Income Trust issued a further $40m and Latrobe Financial launched a $300m vehicle.
The consequence is that margins widened a little while other credit markets tightened.

PERFORMANCE FIGURES

Performance as of 31 May 2025	1 month	3 months	1 year (p.a)	3 years(p.a.)
ELSTREE HYBRID FUND NAV + FRANKING (EHF1)	0.1%	0.9%	8.1%	7.9%
Distribution (cpu) (% franked)	1.0c (58%)	7.1c (73%)	31.80c (61%)	
Expected 3 month Income Distribution		4.8c(96%)		
ELSTREE HYBRID INDEX (P.A.)	0.1%	1.0%	7.6%	7.3%

AUSTRALIAN BANKS: STILL BULLETPROOF. THAT'S GOOD FOR HYBRIDS

Hybrid investors are fundamentally reliant on the health of Australian banks . If banks remain healthy enough, investors are paid a material margin above bank deposit rates .
If their health decreases, investors should place a higher risk margin on hybrids
The good news is that the profitability and reslience of Australian banks means that they are probably the healthiest in the world.
-They consistently generate amongst the highest Returns on Equity (RoE) of global banking systems
-They have such a dominant position in Australia that they can dial up profit numbers they wish to generate

Returns on Equity

Banks are important. They are usually the largest single sector in each economy. Australian banks consistently generate the highest Returns on Equity of any of the major global banking systems, despite running a lower risk lending book than their peers.
The chart over the page shows the returns on equity of varoius national banking systems for the past 20 years compared to the returns of the 4 AUD majors for that year. For example, in 2011, Canadian banks produced a return of equity of 25.4%, which was 9.0% higher than the 4 majors RoE of 16.4%. All the other banking systems had RoEs less than Australia in that year.
It's obvious from the chart that the only banking systems that approach Australian profitability are NZ (guess who owns all the banks over the ditch) and Canada, which is more volatile and whose banks have a much higher risk assets and activities.
All the other banking systems consistently generate much lower RoEs and they are more volatile

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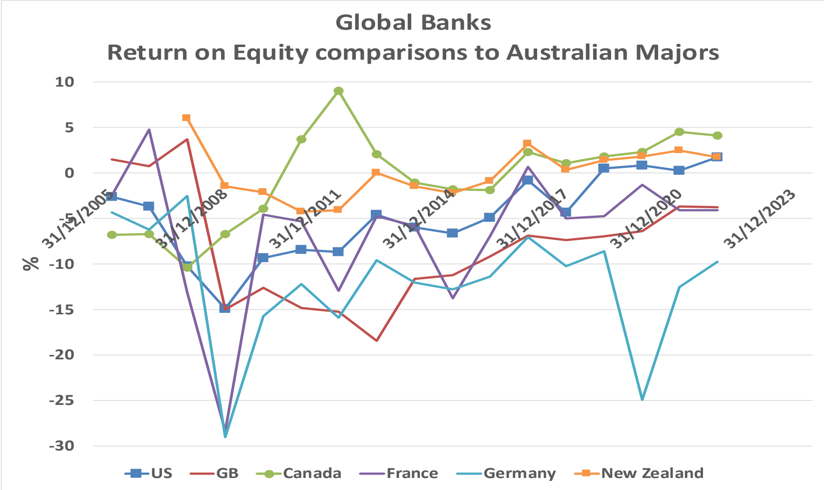
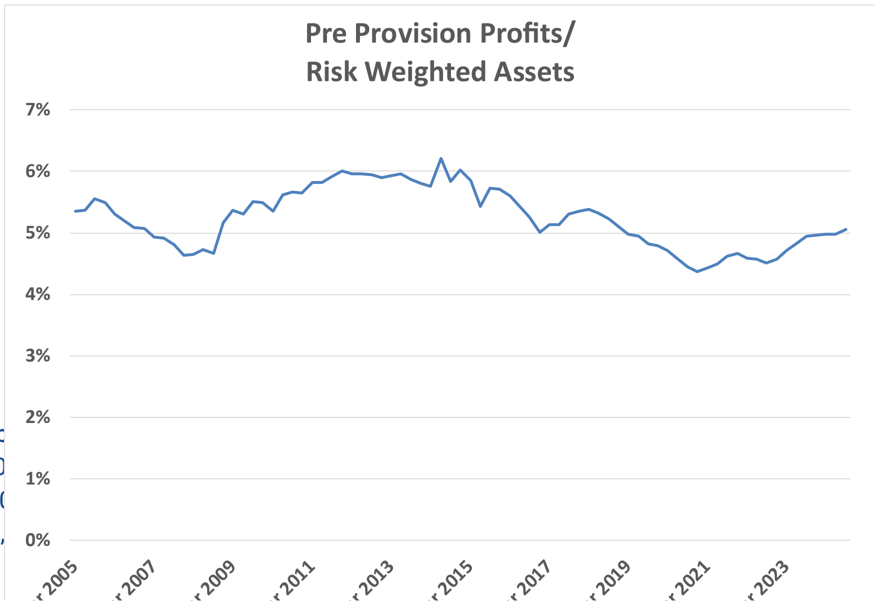


PRICING POWER

A boring chart, but very important. The basic driver behind the world beating RoEs of the 4 majors is stable and high pre provison (for bad debts) income.
Bad debts in banking occur, but irregular. The best way to calculate profitability is to look at pre bad debt profits and assume that once a cycle there will be bad debts. Pre provision profit margins are incredibly stable, which is an oddity in almost any other industry.Paul Keating is quoted about the early 90'sin the AFR as per the below

Westpac had its own problems. As Keating describes it, "Westpac was in the iron lung, [I was] trying to keep them alive". He did this by allowing it to lend money to Australians at an inflated margin to rebuild their capital.

News for you Paul, it's the industry structure that allows that and it has got worse.The dominance of the 4 majors means that,effectively, banks can charge what they want It's really difficult ot get a foothold in the local market. Macquarie has taken over 40 years to get 4% of the Australian market.
In any case, we don't expect any stress for the big 4 and that means a lack of volatility for hybrids. Enjoy the ride



BBSW WATCH

We had some movement in expectations for cash rates this month. The chaos surrounding Liberation Day had markets anticipating a recession and precautionary rate cuts by central banks, including the RBA. Some economists became extremely pessimistic with NAB expecting a 0.50% cut during the May meeting and cash rates falling to 2.6% by February 2026. Markets weren't as gung ho and by the end of May some of the imminent recession talk was receding. Local investors still expect some probability of a greater than 0.25% cut this month and a minimum cash rate of 3.2% in June 26.

	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%	
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
10 March 2025	4.1%	3.6%	3.7%	December 25
10 April 2025	4.1%	2.8%	3.1%	March 26
12 May 2025	4.1%	3.2%	3.3%	June 26
12 June 2025	3.7%	3.2%	3.3%	June 26

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.

livewire

- 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 I Elstree Hybrid Fund
- The Hitchhiker's Guide to Hybrids (Part 1) – Bella Kidman I Livewire Markets
- This is the secret to a diversified portfolio (Part 2) – Bella Kidman I Livewire Markets
- The forgotten asset class presenting exciting opportunities – Bella Kidman I Livewire Markets

FINANCIAL STANDARD

- New Hybrid ETF on Chi-X – Staff Reporter I Financial Standard

ADVISERVOICE
Education and information for financial advisers

- Hybrids remain attractive alternative for income generation – Evergreen Ratings

Firstlinks
a Morningstar company

- 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 I Elstree Hybrid Fund

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- Support for Elstree Hybrid Fund – Staff Reporter I 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 for further information.

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