

RETURNS

We saw a slightly topsy turvy month in October with the Elstree Hybrid index underperforming bank bill returns for much of the month before an end of month spurt. After that, the market generated an above income level return as margins contracted a little.

As investors would be aware when you are fielding calls from advisers on new issues, there are lots of new funds taking advantage of the lack of bank hybrid issues. There were 2 new issues listed this month, a new a PDS and there were rumours of another. We expect that there will have been over \$4b of issuance between June 2024 and the end of 2025, which is above the rate of bank hybrid issuance since Covid.

That issuance results in some market hiccoughs as some investors sell hybrids to invest in the new vehicles and we periodically see weakness. Overall, the new issuance and selling pressure has resulted in hybrid margins remaining stable over the last 12 months, at a time when other credit margins have decreased. We think that current margins of around 2% are good value.

The Fund handily outperformed the market and longer term returns remain at satisfactory levels. Three year Fund returns of 8.6% far exceed Bank Bill returns of 4.0%.

PERFORMANCE FIGURES

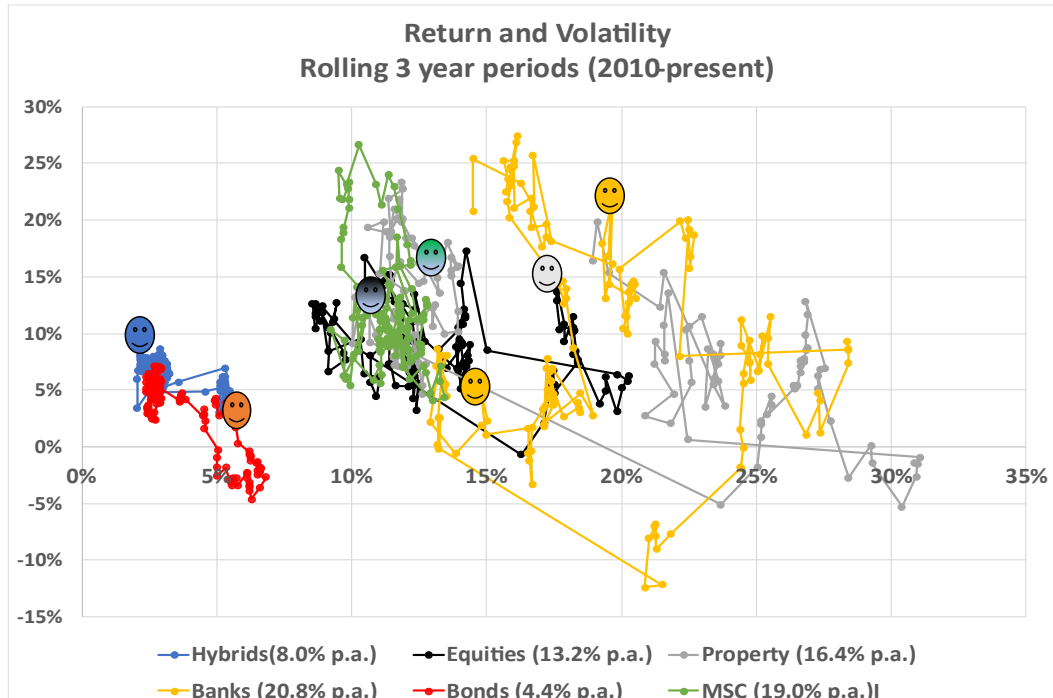
Performance as of 31 October 2025	1 month	3 months	1 year (p.a)	3 years(p.a.)
ELSTREE HYBRID ACTIVE ETF NAV + FRANKING (EHF1)	0.7%	2.0%	6.4%	8.6%
Distribution (cpu) (% franked)	0.9c (32%)	6.6c (70%)	28.3c (68%)	
Expected 3 month Income Distribution		4.6c(96%)		
ELSTREE HYBRID INDEX (P.A.)	0.6%	1.9%	6.3%	8.0%

DIVERSIFY YOUR PORTFOLIOS; YOU WILL SLEEP BETTER

It's all cakes and ale for investors at the moment with market returns for almost all asset classes above long-term averages. But it's not like that all the time and for some growth assets, return cycles can be a decade apart. For example, the current 3-year return of the All Ords Accum is 13.2% p.a. One year ago, the 3-year return to October 2024 was 7.6%. One of these 3-year returns is great, and one is pretty awful, given the risk.

The chart overleaf shows the "snail trail" of rolling 3 year returns for the range of listed asset classes since 2010. Any dot represents the 3 year return (vertical axis), and volatility (horizontal axis) at one month and the "trail" shows the development. For example, the ASX 200 Banks (yellow line) had a 12-month period in 2020 where 3-year (not 1 year) returns were negative. And 3-year volatility was 25% at one stage; 25% annualized volatility is the equivalent of bank share prices moving 7% per month. Anybody comfortable they can live with that?

The current 3 year returns for each asset are in the legend.



Hybrids have the important characteristic of having unvolatile volatility. 3 year returns have been in the range of 5%-10% for almost all of the period, despite Covid 19, 0% cash rates, China fears and whatever else it is that drives growth assets from euphoria to depression. Our Funds have had 4 instances of a negative 12 month returns in almost 200 periods since 2010, so shorter term performance is excellent as well.

The lack of volatility that hybrids display is important in constructing portfolios, particularly income portfolios. It allows investors to use their risk budget to allocate some of their funds to risk assets for the benefit when the cycle finally turns.

One interesting aspect of the chart is the performance and volatility of bonds (red lines). They just haven't cut it since 2010 with relatively high risk and low returns. We still don't think that the bond index is investable. It is too long duration and too volatile. Shorter term bonds may have their place in a portfolio, but we think that the probability of capital gains is very low.

BBSW WATCH

End of rate cuts? Some commentators think so after a higher than expected CPI in late October killed a Melbourne Cup Day rate cut. Others aren't quite as sure and are talking cuts next year, but investors should be wary of experts. Even Luci Ellis the Westpac Chief economist and up until 2 years ago highly ranked RBA lifer, has got it wrong. We can't imagine that was because she is looking at different factors than the RBA or not understanding how the RBA works,, so it can only be attributable to the extreme randomness.

In any case, markets are less volatile than commentators and expectations of what the ultimate low cash rate and expected 2 year average BBSW both changed marginally.

	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 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
14 July 2025	3.7%	3.2%	3.3%	June 26
7 August 2025	3.7%	3.1%	3.2%	June 26
10 September 2025	3.6%	3.3%	3.2%	September 26
10 October 2025	3.6%	3.4%	3.4%	September 26
6 November 2025	3.6%	3.4%	3.5%	January 2026

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.

Elstree Hybrid Management Pty Ltd

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