

RETURNS

The hybrid market was flat during March in a period of Iran tensions. Equities fell 7% during March. The Fund underperformed the index. A large portion of the underperformance was due to a 2% holding in the Aust Unity MCI (AYUPA) which fell almost 9%. There were some capital losses over the quarter which offset some of the income. This resulted in the Fund producing a small positive return for the quarter. This reflects a widening of credit margins by around 0.3%. Margins of other credit instruments remained largely unchanged, and we think that hybrids currently offer good relative value to other riskier, and less risky, credit securities. Despite the performance of the recent quarter, we are confident about prospects for the near future.

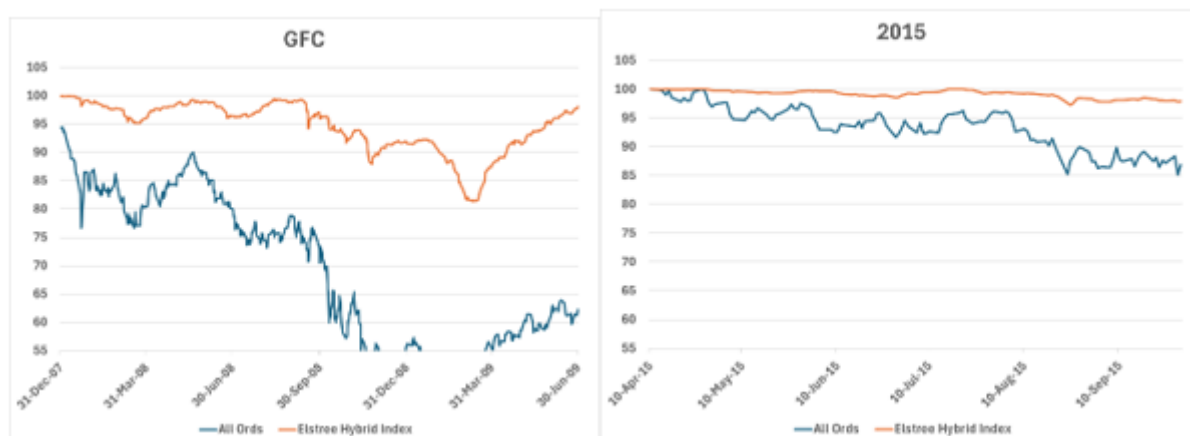
Cash rates are on the increase. 90 day bank bills have increased from the c3.6% for the second half of 2025 to around 4.3% and markets predict 4.8% by the end of the year. This will translate to increased fund income from June onwards and we think credit margins have scope to decrease.

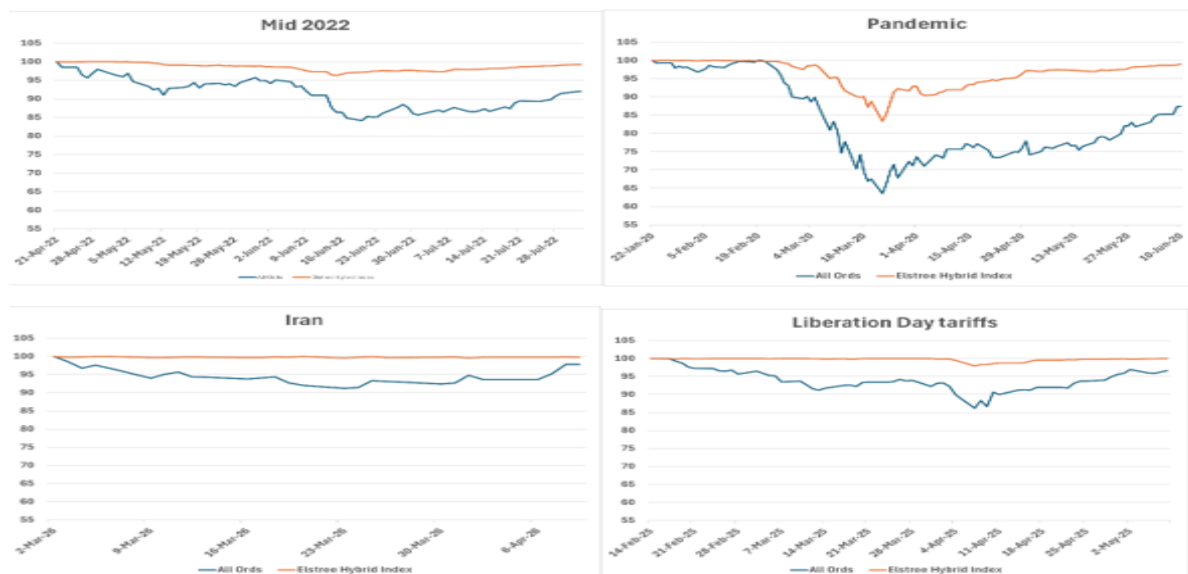
PERFORMANCE FIGURES

Performance as of 31 March 2026	1 month	3 months	1 year (p.a)	3 years(p.a.)
ELSTREE HYBRID FUND ACTIVE ETF NAV + FRANKING (EHF1)	(0.2%)	0.5%	5.4%	8.0%
Distribution (cpu) (% franked)	4.4c (80%)	6.2c (6.4%)	26.1c (66%)	
Expected 3 month Income Distribution		5.1c (87%)		
ELSTREE HYBRID INDEX (P.A.)	0.0%	0.6%	5.7%	7.7%
BANK BILLS	0.3%	0.9%	3.8%	4.1%

HYBRID MARKET WEAKNESS: WHEN DOES IT HAPPEN?

One of our clients asked us how hybrids had been performing given events in the Gulf. Our response was that they were unfussed, and that we weren't that surprised. In the charts below and overleaf we have shown hybrid and equity drawdowns in the 6 biggest equity shocks over the last 20 years. We have kept the same vertical scale on each chart to make it easier to compare. The horizontal scales differ as each bear market takes a different time to unwind.





The only time hybrids have had a material drawdown is when equity markets were seriously weak during the GFC and that during that nasty month in the pandemic. When equity markets are only down 15% hybrids are largely unaffected.

Is this reasonable (and repeatable)?

We think so. A 10% - 15% fall in equity markets (which is what we have just seen) is primarily just a PE re-rating and flat to slightly down EPS growth. It doesn't indicate the world is in serious trouble. As hybrids are generally issued by extremely well rated financial institutions, there is nothing happening in the real world that will affect the solvency of these financial institutions when equities only fall 15%. We can't think of any reason why hybrids should become materially cheaper when this happens.

What about the future?

We've got no idea what happens to equity markets, suffice to say that we haven't had a decent bear market since the GFC 20 years ago. It will happen again and if it is big enough, hybrids will get cheaper. We suspect that the market is increasingly treating hybrids as quasi bank debt, rather than quasi equity. If that is the case, we expect the impact of a material equity market event to be less than in the past.

And a fundamental view on the banks. Westpac has paid a dividend every year since 1817 and we expect that to continue. If banks are paying dividends, they must pay hybrid distributions, and you will get your money back on the first redemption date.

BBSW WATCH

It's amazing what a Gulf war can do to interest rates

This month we have seen the largest rebasing of cash rate expectations (either up or down) for as long as we can remember. In a 5 to 4 split vote, the RBA pushed cash rates up 0.25% to 4.1% at their March meeting. Governor Bullock made it clear what she thought the catalysts were: stronger underlying inflation and concerns that the Gulf outcome could cement higher inflation expectations.

Markets took the medicine and pushed up BBSW futures to an expectation of 4.9% by the end of the year. The 2year average BBSW is now up to levels not seen since 2011. Although increases in cash rates are painful to valuations of growth-ey type assets, it will flow through to higher hybrid income.

Distributions will edge higher with increase expected in June and September quarter payments.

	ACTUAL 90DAY BBSW	LOWEST /HIGHEST EXPECTED BBSW RATE	EXPECTED 2 YEAR AVERAGE BBSW	DATE OF LOWEST/HIGHEST 90DAY BBSW RATE
9 September 2024	4.3%	3.3%	3.7%	March 26
10 December 2024	4.3%	3.6%	3.9%	September 26
10 March 2025	4.1%	3.6%	3.7%	December 25
12 June 2025	3.7%	3.2%	3.3%	June 26
10 September 2025	3.6%	3.3%	3.2%	September 26
6 November 2025	3.6%	3.4%	3.5%	January 2026
4 December 2025	3.6%	3.6%	4.0%	December 2025
7 January 2026	3.6%	3.6%	4.1%	March 2026
11 February 2026	3.9%	4.3%	4.3%	December 2026
5 March 2026	4.0%	4.3%	4.2%	September 2026
11 April 2026	4.3%	4.9%	4.7%	December 1015

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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