

INVESTMENT UPDATE

April 2022

Welcome to the latest Elstree Hybrid Fund (EHF1) Newsletter.

Returns

The Elstree Hybrid Fund (Chi-X: EHF1) produced a return of 0.32% in April which is 0.10% lower than the market return of 0.42%. Since the fund was first quoted on 31 March 2021, it has returned 5.0% (after fees and including franking) which is above the benchmark return of 4.6%.

Returns for the month were dragged down by a -4% return by the Ramsay Health CARES (RHCPA) which fell after a KKR consortium lodged an indicative offer. Some investors expect it to be redeemed for \$100 should the offer succeed. We think however it's not quite that certain.

Returns of the Fund, the Elstree Hybrid Index and Bank Bill/Term Deposit returns are summarised in the performance table below.

Performance figures as of 29 April 2022:

Performance as of 30 April 2022	1 MONTH	3 MONTHS	1 YEAR (p.a)	3 YEARS (p.a)
ELSTREE HYBRID FUND NAV + FRANKING (EHF1) *	0.3%	0.5%	4.1%	n/a
Distribution (cpu) (% franked)	0.6 cents (60%)	3.4 cents (67%)	14.8 cents (58%)	n/a
ELSTREE HYBRID INDEX (P.A.) **	0.4%	0.8%	3.7%	5.0%
BANK BILLS	0.0%	0.0%	0.0%	0.5%

* Elstree Hybrid Fund (EHF1) Investment Performance is return after all fees and after the value of franking credits.

** Elstree Hybrid Index includes the value of franking credits.

Top Holdings & contributors to returns:

Security	Return contribution	Security	Return contribution
CBAPJ	0.09%	BENPG	0.03%
CGFPC	0.05%	WBCPH	0.03%
CBAPK	0.05%	RHCPA	(0.15%)

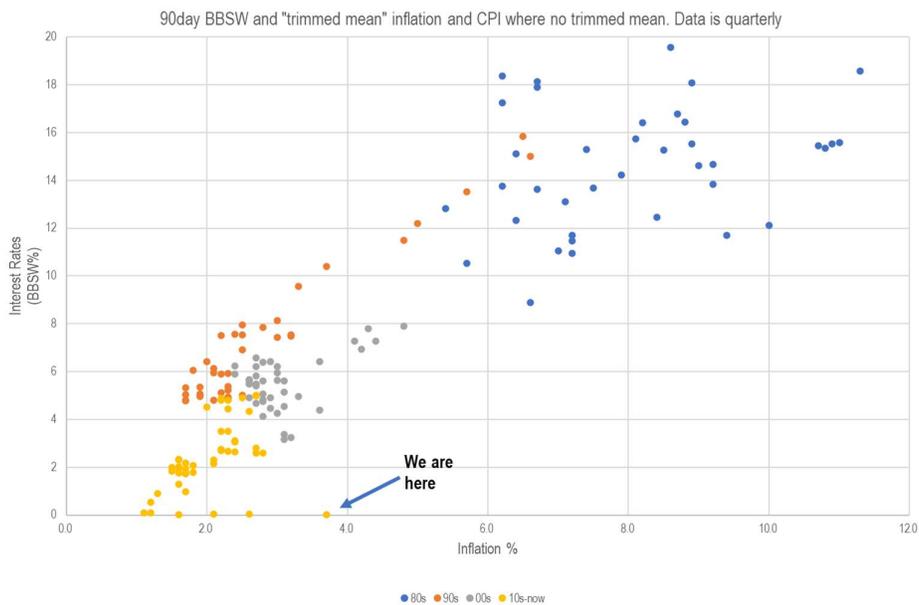
Market Commentary

We saw the usual post issue recovery this month. Typically, the market sells off a little before new issues are priced and then recovers afterwards. This occurred again after 2 new issues in March by ANZ and CBA. At end April the ANZ and CBA issues were priced at \$101.72 and \$101.33 respectively.

For hybrid investors, the level of cash rates is an important part of the total return equation. April saw a continuation of a trend of the market expecting higher cash and floating benchmark reference rates at an earlier date. At the end of February, markets expected December 90day BBSW to be 1.3%. This increased to 2% by the end of March and was 2.8% by end of April. For the past 2 years 90dayBBSW has been close to zero, so if the anticipated increase happens, hybrids will be producing income levels at a 5.5% annual rate.

Inflation and interest rates

The last time inflation popped its head above 4% was for a brief period in 2008 - before then you have to go back to the late 1980's to see inflation levels that we expect to see later this year. And the last period of accelerating inflation was back in the 70's. So it's not something that investment markets are used to. Central banks have had a specific mandate to control inflation since the early 90s and an unofficial mandate since the early 1980's when US Federal Reserve Chairman, Paul Volcker pushed US cash rates up to over 20%. So, interest rates have generally been the way that governments and Central Banks try to control inflation. In the chart below we have compared inflation ("trimmed mean" the RBA's preferred measure, and CPI where there was no data for the trimmed mean) and 90day BBSW for each quarter since 1970. The dot points for the various decades are in different colours. There's a nice pattern up until Covid but the last 2 years have no parallel.



The RBA's gameplan was pretty straightforward until the last 2 years. High inflation is met with high interest rates and vice versa. It's worth noting that fiscal policy in the 70s and 80s was loose and it's been tight since the mid 2000's (until Covid of course). So maybe the lower inflation seen over the period since 2010 is partly attributable to tight fiscal policy.

Whichever way you cut it, current interest rates are entirely inconsistent with projected inflation, particularly when accompanied by loose fiscal policy. RBA Governor Lowe started gesticulating about a terminal cash rate of 2.5%, but that only makes sense (historically anyway) if inflation stays below 2%. The current spike in inflation to c5% by the end of this year may well be transitory, but it looks very much to us that we've seen the end of interest rates below 2%.

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.



- [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



- <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



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



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



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

More about Elstree Hybrid Fund (EHF1)

Elstree Hybrid Fund (Chi-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 (Nine Mile). 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](#) or [Michelle Morgan](#) for further information.