

INVESTMENT UPDATE

JANUARY 2021

Welcome to the latest Elstree Hybrid Fund (EFH1) Newsletter.

Returns

Elstree Hybrid Fund (Chi-X: EFH1) produced a return of 1.04% in December, 0.03% lower than the market return of 1.07%. Since the fund was quoted, the Fund has returned 5.0% (after fees, including franking) which is above the benchmark return of 4.3%.

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 31 December 2021:

Performance as of 30 November 2021	1 MONTH	3 MONTHS	1 YEAR (p.a)	3 YEARS (p.a)
ELSTREE HYBRID FUND NAV + FRANKING (EHF1)*	1.0%	2.2%		
ELSTREE HYBRID INDEX (P.A.) **	1.1%	1.8%	5.9%	5.7%
BANK BILLS	0.0%	0.0%	0.0%	0.7%

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

** Elstree Hybrid Index include the value of franking credits and has no fees

Top Holdings & contributors to returns:

Security	Return contribution	Security	Return contribution
NABPH	0.17%	WBCPJ	0.08%
ANZPI	0.11%	AMPPB	0.07%
CBAPJ	0.10%	WBCPK	0.05%

Year End Review

It's been a pretty good year for hybrid investors. Market returns since the Fund was quoted on March 31 have been 4.25% and the Fund has handily outperformed that. The returns are well in excess of income returns of c2.8% for the period and reflect some capital gains as margins decreased.

Fund performance is slightly above our expectations and many of the active positions we took in the Fund were successful. The major tilt was based on our view that margins would decrease in response to low cash rates, bulletproof bank balance sheets and the quest for yield by retail investors. Margins did contract by around 0.5% from a starting level of 2.8% in March. This resulted in capital gains. We also added value with some of our individual stock selections.

There are now 4 hybrid ETP/ETFs listed. In the table below we compare their performance with EHF1. Only one hybrid ETF (HBRD) was listed for the whole period since March 31, so for the other ETF we have compared EHF1's performance since the listing date of that particular ETF.

As can be seen, EHF1 has easily been the best hybrid ETP this year with handy outperformance of each of the other managers. It's often difficult investing in a new fund, but we think it has been worthwhile for our investors and we thank you for your support this year.

	Fund Return	EHF1 Return	EHF1 Outperformance
Elstree Hybrid Fund (EHF1) (since March 31)		4.43%	
Betashares Active Australian Hybrids Fund (HBRD) (since March 31)	2.76%	4.43%	1.67%
Betashares Australian Major Banks Hybrids (BHYB) (since 21 April)	3.01%	3.85%	0.84%
Daintree Hybrid Opportunities Fund (DHOFF) (since 4 October)	0.72%	1.95%	1.23%

(Returns are NAV + Distributions, Data source: Betashares, Daintree, Elstree, IRESS)

We expect quieter markets in the early parts of 2022. There is often a January hangover, margins have contracted to be closer to our targets and there are a few new hybrid issues to be absorbed.

However, we will continue to manage the Fund to ensure it meets its objective of medium income with relatively low risk over a 2-3 year period. It may mean our cash levels become elevated at some time over the next few months if there is weakness.

Market Commentary

Last month we wrote that December was usually a good month with only 3 of the last 12 Decembers producing a sub 1% return. We thought that 1% was a long shot this time, as the drag from 0% cash rates (cf the c3% average over the last decade) is around 0.25% per month. So, 0.75% would have been a good result. But the hybrid market produced a return of 1.07% with the Fund producing a NAV + franking return of 1.05%.

The catalysts for the stronger than expected market were similar to the influences that existed for most of 2021. Equity markets were strong which dampened any risk aversion and we saw a continuation of search for yield by retail investors which pushed hybrid prices up. The 2 largest Hybrid ETFs (HBRD and BHYB) have added around \$150m of FUM over the past 2 months. In the context of hybrid market turnover of \$35m per day this means that the constant buying from these funds supports the market. This retail demand is widespread and the ETF buying is only part of the healthy demand equation.

At the individual security level, the AMPPB hybrid was the best performing returning 3.5%. The market has always been wary of AMP hybrids and for most of the year, the AMPPB had lagged the rest of the market. Later in the year it became apparent that the AMPPB was priced for a "very bad" outcome, but after AMPs continual shrinking of their business, it should be priced for a "bad" outcome and the

price popped after an investor day when apparent they have enough capital to survive (but maybe not thrive).

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



- [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.

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