

RETURNS

The Elstree Hybrid Fund (“EHF1”) return for March was 1.53%, which was higher than the market return of 1.34%. That was the 3rd highest return of Fund’s 3year history and resulted in an excellent rolling 12 month return of 9.59%. That level of monthly and yearly returns is uncommon in hybrid markets where our return expectations are mid to high single digits but a very low chance of greater than 10% or less than 0% returns. The strong month was a combination of the usual post issue rally and the continuation of what everybody is describing as a “risk on” rally. Equity markets have gone up in a straight line for 6 months, credit margins in all bond markets are close to their lowest levels ever and nobody is scared. Hybrid margins aren’t at record low levels, so there is some room for further falls in margin and capital gains, but we don’t expect a repeat of this month’s performance for a while.

PERFORMANCE FIGURES

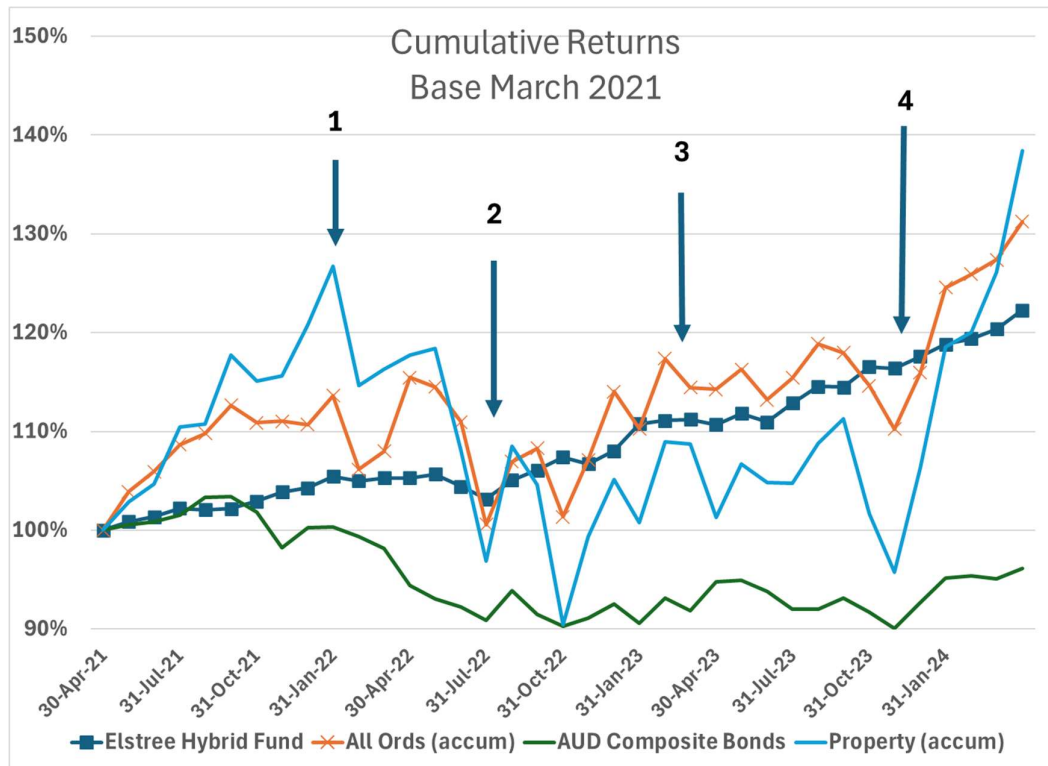
Performance as of 31 March 2024	1 month	3 months	1 year (p.a)	3 years(p.a.)
ELSTREE HYBRID FUND NAV + FRANKING (EHF1)	1.5%	2.7%	9.6%	6.1%
Distribution (cpu) (% franked)	\$0.061(73%)	\$0.087(69%)	\$0.305(61%)	
Expected 3month Income Distribution		\$0.056(94%)	68%	
ELSTREE HYBRID INDEX (P.A.) *	1.3%	2.5%	9.1%	5.6%
BANK BILLS	0.4%	1.1%	4.2%	2.1%

* Elstree Hybrid Index includes the value of franking credits.

3 YEARS OF THE ELSTREE HYBRID FUND

The Elstree Hybrid Fund (EHF1) commenced trading on 31 March 2021, so the end of last month represented its 3rd birthday. We’re proud parents and would like to thank unitholders for joining us on the journey. Fortunately, there haven’t been too many toddler tantrums or terrible 2’s. The chart below shows the accumulated returns over the 3 years of all the traded asset classes and the Elstree Hybrid Fund (pre fees: all the other indices are pre fees as well. EHF1 fees around 0.8% p.a.).

As can be seen up until late last year, EHF1 was not only the least volatile of the asset classes, but it was also the best performer. The strong rally in risk assets since late last year has changed the return ranking, but a 6% return with an average cash rate of a little over 2% and with the risk profile of EHF1, has been an excellent result. Current market expectations are that cash rates will average over 4% for the next 2 years. The income from EHF1 will be in the 6.5% - 7% range if that occurs. There were some interesting turning points for markets over the 3 years and we’ve commented on them after the chart.



1 Late 2021 was peak post Covid bullishness. Cash rates were close to 0%, markets were convinced that the inflation that was starting to emerge was “transitional” (remember that?), and everyone expected bond rates to stay low forever. So, property was popular, and equities had rallied 60% from end March 2020 levels. Hybrids were generating steady c6% p.a. returns.

2 It all changed in the next 6 months. “transitional” became a dirty word and markets pivoted to expecting lots of inflation and lots of tightening. Central banks were in tightening mode and the RBA made its first increase in May 2022, a few months after the US Fed. Bond returns were appalling as bond rates increased at the fastest rate since 1994 and that flowed through to property as well. Equities lost c20% from the late 2021 highs. Hybrids were affected for a short period but returns accelerated slightly as cash rates pushed the income component up.

3 March 2023 was Credit Suisse and Silicon Valley Bank collapse month. It was a big deal at the time, but was short-lived and by the end of March 2023 all markets had recovered losses after deciding that the collapse of, an ‘accident waiting to happen’ investment bank and a few US banks that no one had heard of, it was not systematic. The authorities did enough to not worsen the situation.

4 This is when the world decided that interest rates had peaked and inflation was going to be fine. The so called “immaculate deflation” would see a small or non-existent slowdown in growth, inflation back to 2% and markets in “what me worry” mode.

BBSW WATCH

March was boring, but it all livened up in early April after the US CPI release. That was higher than expected and US markets are placing a very low probability on more than 1 easing this year. US cash rates are 5.25%, which is the equal highest US cash rate this century. In 4 months, it will take the crown as the longest period of high cash rates since 1997.

In Australia, markets pushed out the timing a bit further. As the 4th column of the chart shows, the expected average 90dayBBSW for 2 years is 4.1%, which implies only 1 cash rate cut in the next 2 years.

	ACTUAL 90DAY BBSW	HIGHEST EXPECTED 90DAY BBSW RATE	EXPECTED 2 YEAR AVERAGE BBSW	DATE OF HIGHEST 90DAY BBSW RATE
28 February 2022	0.1%	2.6%		June 2024
30 June 2022	1.8%	4.0%		June 2023
30 September 2022	3.1%	4.5%		December 2023
31 December 2022	3.3%	4.3%		December 2023
31 March 2023	3.6%	3.6%		December 2023
9 June 2023	4.2%	4.6%		December 2023
11 October 2023	4.1%	4.3%		June 2024
13 December 2023	4.3%	4.3%		June 2024
10 January 2024	4.3%	4.4%		March 2024
7 February 2024	4.3%	4.3%	4.0%	March 2024
6 March 2024	4.3%	4.3%	4.0%	March 2024
8 April 2024	4.3%	4.3%	4.1%	June 2024

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](#) for further information.

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