DAINTREE HYBRID OPPORTUNITIES FUND (MANAGED FUND) (ASX: DHOF)

MONTHLY FACTSHEET: 31 October 2021

Awards & Credentials

The Daintree Hybrid Opportunities Fund (Managed Fund) (ASX: DHOF) is rated as a Superior offering by SQM. Daintree Capital is also a signatory to the United Nations Principles for Responsible Investment.

Superior SQM RESEARCH

Signatory of: PRI Principles for Responsible Investment

Fund Description

DHOF targets an absolute return over time by investing in a diversified portfolio of hybrid securities which offer the best risk adjusted returns available from a global universe of securities.

DHOF is listed on the ASX under the AQUA Rules.

Fund Objective

The aim of DHOF is to provide a steady stream of income over the medium term, by investing in a diversified portfolio of Australian and global hybrid securities and cash, and to provide a total return (after fees) that exceeds the Benchmark by 3.5%-4.5% measured throughout a market cycle.

Monthly Highlights

- Narrower credit spreads drove fund performance in October, despite the significant sell-off in bonds acting as a partial offset
- Credit market conditions remain strong, including in the banking sector, where higher interest rates should assist profitability

Key Statistics

Modified Duration (Yrs)	0.95
Spread Duration (Yrs)	2.73
Running Yield (%)	3.95
Average Credit Quality	BBB
Portfolio ESG score (MSCI)	A

Note: Portfolio yield is the expected return over the next year, assuming no changes to either portfolio composition or market yields. Average credit quality excludes overlay positions. Portfolio yield and spread duration reflect the net credit default swap exposures in the portfolio. The Portfolio ESG score is the weighted average portfolio ESG rating based on Daintree Capital's application of MSCI data. Data as of 31 August 2021.

Fund facts

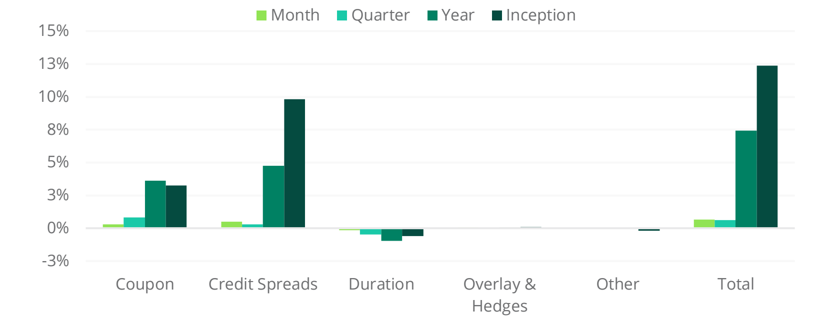
Trust name	Daintree Hybrid Opportunities Fund (Managed Fund) (ASX: DHOF)
Responsible Entity	Perennial Investment Management Ltd
Portfolio managers	Brad Dunn, Mark Mitchell & Justin Tyler
Inception date	1 March 2020
APIR code	WPC2054AU
ISIN	AU60WPC20540
Management costs	0.65% pa + 0.10% pa expense recovery
Buy/sell spread	+0.10% / -0.10% for unlisted units; exchange-quoted spread for listed units
Entry and exit fees	None for unlisted units; broker fees applicable to listed units
Minimum initial investment	$25,000 for unlisted units; no minimum for listed units
Distribution frequency	Quarterly
Currency	Australian Dollar

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	Inception (% pa)
Fund (gross)	0.66	0.62	7.43	12.38
Fund (net)	0.60	0.43	6.69	11.64
Distribution (net)	0.00	-1.07	0.10	0.62
Growth (net)	0.60	1.50	6.58	11.02
RBA Cash Rate	0.01	0.03	0.10	0.17
Excess Return	0.59	0.41	6.59	11.46

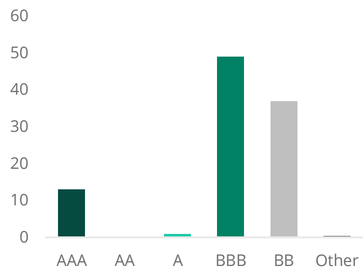
Note: Performance inception is 1 March 2020. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator of future performance.

Performance Contribution (Pre-Fees)



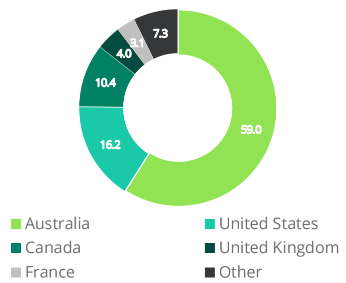
Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

Rating Exposure (%)



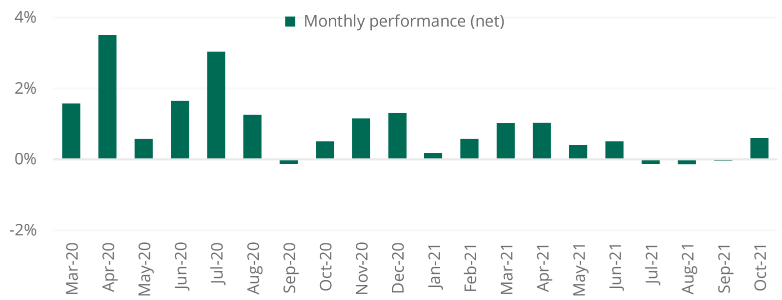
Data as of 31 July 2021

Country Exposure (%)



Data as of 31 July 2021

Monthly Performance



Cash Income

The Fund distributed 0.60 cents per unit in September. The next distribution is expected in December.

Distribution Partners

Daintree CAPITAL | Perennial Partners | eInvest

Fund Review

The Fund produced a solid total return of 0.6% in October, driven by coupon income and a tightening of credit spreads. Credit market conditions remain strong, including in the banking sector, driven by demand for high quality income opportunities. Also helping sentiment was a robust quarterly reporting season from the American banks where profitability surprised to the upside. Furthermore, banks are generally seen as beneficiaries of higher interest rates, boosting consensus expectations that recent positive momentum can be maintained. Volatility in interest rate markets tempered the overall performance of the Fund, but with modified duration of less than one year at month end (and subsequently reduced further in early November), the overall impact on performance was manageable. The overlay made a modest positive contribution of four basis points for the month despite the moves in interest rates weighing on duration-related overlay strategies.

Inflation expectations and the outlook for central bank stimulus programmes have been front-of-mind for markets in recent weeks. While this dynamic has been an important consideration, it has not catalysed any changes in the holdings or overall outlook of the Fund. The Portfolio Managers continue to focus on building and maintaining the highest quality portfolio of individual securities, supplemented by a flexible overlay with both value creation and risk management characteristics.

Outlook

What a month. The volatility in the Australian bond market during October was nothing short of extraordinary. Many fixed income market participants had expected a 'taper tantrum' of sorts at some point this year. In February it seemed that such predictions would be proved correct, but subsequently we saw longer tenor yields falling as the bond market proved unable to push sustainably into a new, higher yield range. Indeed, six months later the 10-year yield in Australia was very close to where it had been in January 2021, before the February 2021 sell-off took place.

History may well show that the tantrum many expected to happen actually took place in October. It happened in the shorter-dated part of global yield curves as opposed to the 10-year part of the curve that garners so much attention in markets. The catalyst? Bond markets pushing back, in a significant and synchronised way, on the expectation that global central banks would keep cash rates on hold for an extended period. After central banks in several emerging markets tightened monetary policy, we then saw the Bank of England turn hawkish. This was followed by a surprise out of New Zealand where CPI was higher than expected, a surprise out of Canada where the Bank of Canada unexpectedly suspended asset purchases, and (most notably) the failure on the part of the RBA to defend the yield target on the 2024 bond in Australia after a slight upside inflation surprise, which sparked a savage sell off. Yields on short-tenor bonds rose in unison across the globe in dramatic fashion, particularly in Australia where the 3-year bond pushed higher in yield by 91 basis points. This was the largest such move higher in the three-year bond yield in a calendar month since June 1994. Market liquidity in this normally very liquid part of the bond market evaporated, with the usual depth of the 3-year futures contract of more than 1000 contracts available to buy or sell during the Australian trading day reducing to around 20 contracts. The normal ability of investors to react to the changing risk backdrop was therefore severely curtailed.

Where does this upheaval leave markets? As we write, the RBA has formally changed its guidance to the market, removing yield curve control. Yield levels and liquidity are now normalizing, but we see the credibility of the RBA as damaged, which means their ability to use rhetoric to move markets is likely to be compromised for the time being. Changes on the part of overseas central banks will continue to move the Australian bond market, despite the protestation of the RBA Governor that Australia faces unique circumstances. Importantly, the front end of the Australian yield curve will be more data dependent, and the 3-year bond will settle into a new (and higher) range. In our view that is a good outcome, even if the path markets took to get to this outcome was needlessly bumpy.