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

## MONTHLY FACTSHEET: 31 May 2022

### 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

- A significant tightening of credit spreads in North America saw positive performance for the month.
- We added to positions in North America in small measure, while we were also active at the front end of the Australian market, looking to capitalise on rising short-term rates that will filter through to coupon payments in coming months.

### Key Statistics

| | |
|---|---|
| **Modified Duration (Yrs)** | 0.47 |
| **Spread Duration (Yrs)** | 2.33 |
| **Running Yield (%)** | 3.03 |
| **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 March 2022.

### 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 |

### Platforms

The Daintree Hybrid Opportunities Fund (Managed Fund) is available on the following platforms:

◊ BT Panorama ◊ HUB24 ◊ Macquarie Wrap ◊ Netwealth

### Distribution Partners

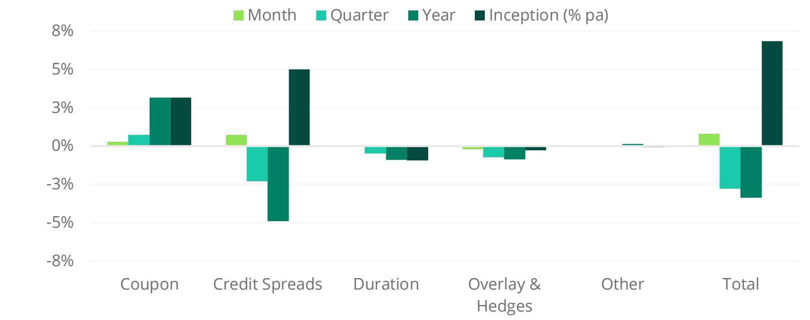
Daintree CAPITAL | Perennial Partners | eInvest

### Performance & Analytics

| | Month (%) | Quarter (%) | 1 Year (%) | Inception (% pa) |
|---|---|---|---|---|
| Fund (gross) | 0.80 | -2.77 | -3.36 | 6.86 |
| Fund (net) | 0.74 | -2.96 | -4.11 | 6.11 |
| Distribution (net) | 0.00 | 0.10 | 1.56 | 1.55 |
| Growth (net) | 0.74 | -3.05 | -5.66 | 4.56 |
| RBA Cash Rate | 0.03 | 0.05 | 0.12 | 0.16 |
| Excess Return | 0.71 | -3.00 | -4.23 | 5.95 |

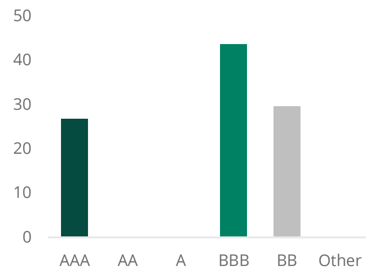
Note: Performance inception is 1 March 2020. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

### Performance Contribution (Pre-Fees)



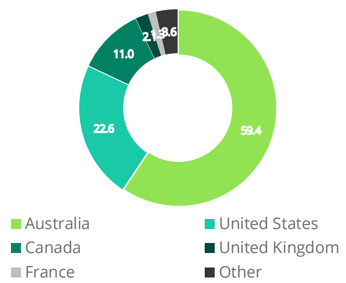

Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

### Rating Exposure (%)



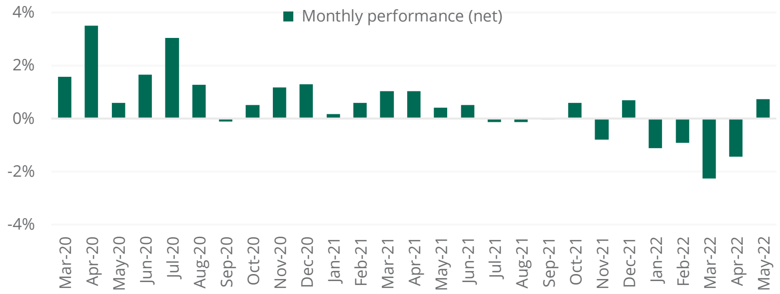

Data as of 31 March 2022

### Country Exposure (%)




Data as of 31 March 2022

### Monthly Performance




### Cash Income

The Fund distributed 1.00 cents per unit in March.

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## Fund Review

The Fund registered a return of +0.74% for the month, driven by credit spreads and coupon return. However, credit spread movements were not uniform across the portfolio, with modest widening in Australia and stable spreads in Europe overshadowed by significant tightening in North America. This coincided with a shift in market focus, particularly in North America, from being rates-driven so far in 2022 toward a more risk-based outlook that contemplates a potential deceleration of growth into 2023.

During the month we added to positions in North America in small measure, while we were also active at the front end of the Australian market, looking to capitalise on rising short-term rates that will filter through to coupon payments in coming months. We retain some credit hedges, a modest duration exposure and excess cash to ensure ample flexibility in coming months.

## Outlook

Despite major intra-month volatility in rates and equities markets, by the end of May risk assets had largely finished where they started. The volatility is being driven by the ongoing tension caused by persistent inflation rubbing up against a more uncertain growth outlook. Indeed, while 2022 consensus inflation forecasts now average more than 7% across the United States, Europe and the UK, consensus growth estimates have fallen from an average of 4.5% in March to now be only just above 3%. The primary dilemma for central banks remains how to address inflation without impeding growth expectations too severely.

Supply chain disruptions and rising energy costs continue to cast a long shadow over the global economy. Despite this, late May gave rise to a relief rally of sorts as COVID lockdowns in China began to ease. The reopening of some the largest container ports in the world will have a positive knock-on effect for parts of the supply chain, but restrictive transport costs and the impact of the war in Ukraine will persist for at least the remainder of this year. Supply-side inflationary forces such as these will limit the effectiveness of the interest rate tightening cycle. The question is, will high energy prices and shortages sufficiently dampen activity of their own accord and reduce the need for restrictive tightening, or will they keep inflation elevated and force central banks to continue their normalisation agenda?

The RBA increased the cash rate for the first time in more than a decade, and Australia saw a change of federal government during the month. With little detail or major differentiation in the policy outlook, let alone anything resembling a reform agenda, financial markets took little notice of the election result. However, the movement in cash rate was notable in that it occurred during the election campaign and before the release of highly anticipated wage data that printed below expectations. We would expect additional increases at most meetings for the remainder of the year, while not discounting the possibility that headline inflation has yet to peak. We also note that the structure of Australian mortgage markets allows the transmission mechanism of cash rates through to the real economy to be quick and direct, at least for borrowers. In the banking system, deposits continue to grow faster than loans, suggesting an underlying caution amongst households as cost-of-living pressures remain front-of-mind.

Credit spreads continue to gradually widen, a trend that has persisted for close to a year. Relative value is emerging across a range of sectors, because while economic uncertainty has increased, expected returns have in some cases doubled while the probability of default has not. While asset valuations in some growth-heavy sectors have moderated in recent months, corporate fundamentals overall remain strong. Similarly, bank balance sheets have limited allowances for credit losses, but households are showing a high degree of prudence in uncertain times. We retain a degree of flexibility in our portfolios, with modest credit hedges complementing higher-than-normal cash levels, and limited duration.