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

MONTHLY FACTSHEET: 31 October 2023

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 quoted on the ASX under the AQUA Rules.

Superior SQM Research

Signatory of: PRI Principles for Responsible Investment

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%-4% measured throughout a market cycle.

Monthly Highlights

- Bank equity weakness, fueled by geopolitical concerns, impacted hybrid credit spreads. The widening was sufficient to offset another month of positive coupon income.
- Duration positioning was kept low, dampening volatility and preserving capital.
- The Fund added a new issuer in the form of Judo Bank, which came to market with its inaugural Additional Tier 1 security.

Key Statistics

Modified Duration (Yrs)	0.05
Spread Duration (Yrs)	2.69
Running Yield (%)	6.21
Yield to Call (%)	8.47
Average Credit Quality	BBB
Portfolio ESG score (MSCI)	AA

Note: Average credit quality excludes overlay positions. Portfolio running 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 October 2023.

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 non-quoted units; exchange-quoted spread for quoted units
Entry and exit fees	None for unlisted units; broker fees applicable to quoted units
Minimum initial investment	$25,000 for non-quoted units; no minimum for quoted units
Distribution frequency	Quarterly
Currency	Australian Dollar

Platforms

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

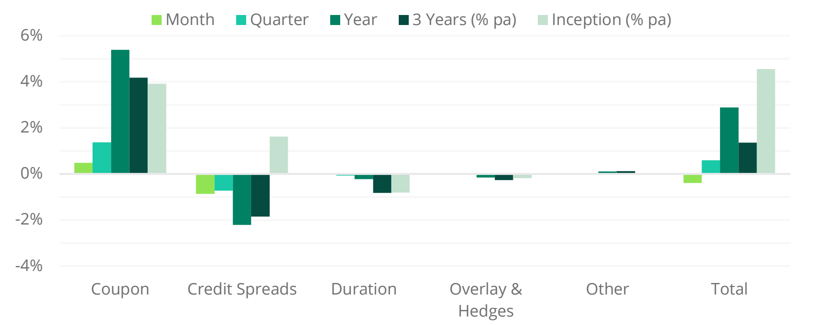
◊ BT Panorama ◊ HUB24 ◊ Macquarie Wrap ◊ Netwealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Year (% pa)	Inception (% pa)
Fund (gross)	-0.39	0.59	2.89	1.36	4.55
Fund (net)	-0.45	0.41	2.14	0.61	3.81
Distribution (net)	0.00	1.09	3.42	2.39	2.24
Growth (net)	-0.45	-0.68	-1.28	-1.78	1.57
RBA Cash Rate	0.35	1.04	3.71	1.52	1.30
Excess Return	-0.80	-0.63	-1.56	-0.91	2.51

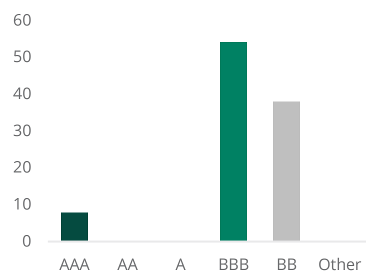
Note: Performance inception is 1 March 2020. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre-Fees)



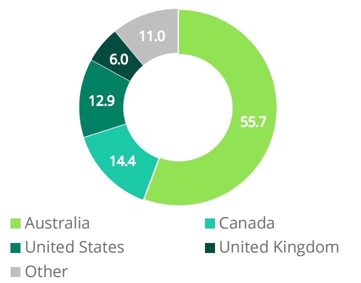
Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

Rating Exposure (%)



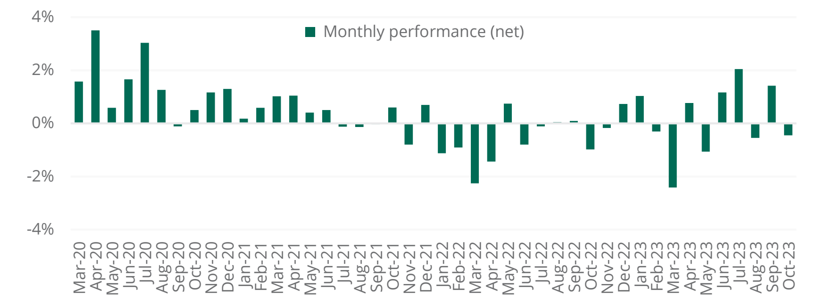
Data as of 31 July 2023

Country Exposure (%)



Data as of 31 July 2023

Monthly Performance



Cash Income

The Fund distributed 10CPU in September 2023. The next distribution will be paid in December 2023.

Signatory of: PRI Principles for Responsible Investment

Proudly supporting: ONE TREE PLANTED

Fund Review

The Hybrid Opportunities Fund returned -0.45% for the month, net of fees. The Fund's performance was supported by coupon income, but hybrid credit spreads widened modestly, weighed down by bank equity weakness and geopolitical concerns. Duration exposure was kept low which reduced volatility and limited performance impact. Overlay and hedges were neutral contributors for the month.

Evidence of a weakening growth outlook continues to emerge, creating headwinds for bank earnings. Recent results from reporting banks in North America and Europe have been mixed relative to consensus expectations, while equity market volatility - which in the banking sector has been elevated since March when Silicon Valley Bank and Credit Suisse failed - spilled over into hybrid markets during October.

The Fund added a new issuer in the form of Judo Bank, which came to market with its inaugural Additional Tier 1 security. The challenger bank raised $75m through a bookbuild and plans to list the new instrument on the ASX in mid-November.

Outlook

Events in the Middle East captured the world's attention on 7 October, adding a new dimension of risk to global growth and inflation narratives. However, by the end of the month, expectations of further interest rate increases had subsided (except in Australia where the data has driven an increase in November) and financial conditions had eased (driven by rising risk asset valuations).

Risks to the already fragile growth outlook from conflict between Israel and Hamas include disruption to energy markets, given that so much global supply emanates from the region. This risk will become more meaningful if hostilities spill over into a wider regional conflict. Iran, and its proxies in Lebanon, Syria and Yemen have voiced their support for the Palestinians but have refrained from major physical engagements to date. Given oil futures closed the month lower, energy traders do not share our level of concern for potential supply disruptions.

Geopolitics notwithstanding, inflation concerns continue to abate, leading traders to dust off their predictions on the timing of interest rate cuts. There are two scenarios that could lead to a central bank pivot. The first would be in response to growing and widespread conflict across multiple regions as a response to expected trade and economic shocks. The second scenario would see growth materially slow, employment conditions soften, widespread corporate defaults and/or corporate profitability severely weakening. Given the resilience of the global economy over 2023, we see both scenarios as quite unlikely, and thus hold fast to our view that interest rates are most likely to remain at our around current levels for the time being.

While not capturing the headlines, we believe developments in Japan warrant consideration. In response to the first credible signs of inflation in close to 40 years, the Bank of Japan made further (modest) tweaks to their Yield Curve Control (YCC) programme, allowing the yield on the 10-year government bond to trade more freely within a defined range. While we know the goal of the BoJ is to eventually extricate themselves from YCC altogether, the sheer value of assets at stake means that the transition will occur gradually. Exporters are taking advantage of a depreciating yen in the short term, but the greater risk is higher local bond yields attracting capital back to Japan, with implications for bond markets globally. An unwinding of the yen carry trade becomes more likely with each month that inflation persists above target and would be influential on interest rates across developed markets.

Credit spreads were resilient in October against an uncertain backdrop. Credit markets seem to be looking through the geopolitical tensions and short-term market noise and focusing on strong corporate fundamentals. Indeed, primary issuance markets have been lively for several months, with October seeing the strongest activity so far this year. We cannot rule out further spread widening as the current economic cycle matures, but we are confident that the investment grade segment of the market is well placed to navigate near-term challenges. Strong coupon income will remain the foundation of the return profile over time.