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

MONTHLY FACTSHEET: 31 January 2024

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

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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

- High coupon receipts combined with a narrowing of credit spreads were the main drivers of returns as credit markets, a continuing theme in recent months.
- Duration positioning gave back a little of the strong performance seen last month.
- The Fund saw several relative value and switch trades during the month.

Key Statistics

Modified Duration (Yrs)	0.51
Spread Duration (Yrs)	3.37
Running Yield (%)	6.26
Yield to Call (%)	6.87
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 January 2024.

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:

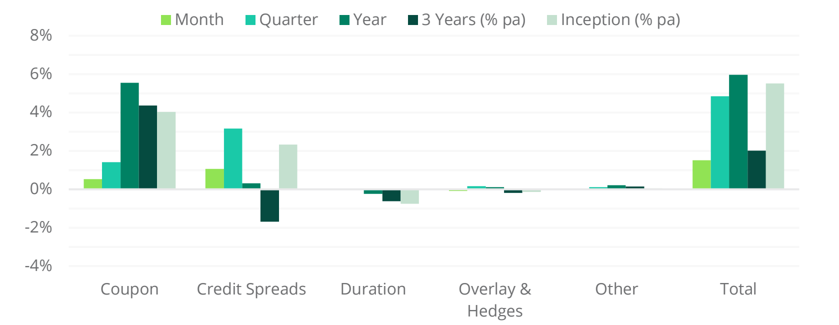
◊ BT Panorama ◊ HUB24 ◊ Macquarie Wrap ◊ Netwealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Year (% pa)	Inception (% pa)
Fund (gross)	1.52	4.84	5.96	2.01	5.52
Fund (net)	1.45	4.65	5.22	1.26	4.77
Distribution (net)	1.08	1.12	3.95	2.46	2.40
Growth (net)	0.37	3.54	1.27	-1.20	2.37
RBA Cash Rate	0.37	1.10	4.05	1.88	1.49
Excess Return	1.08	3.56	1.16	-0.62	3.28

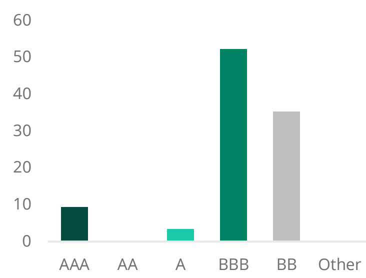
Note: Performance inception is 1 March 2020. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre-Fees)



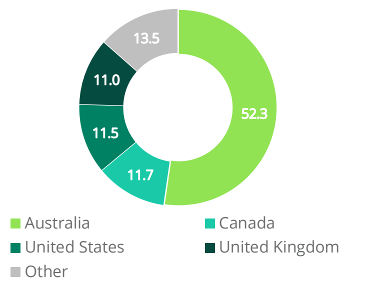
Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

Rating Exposure (%)



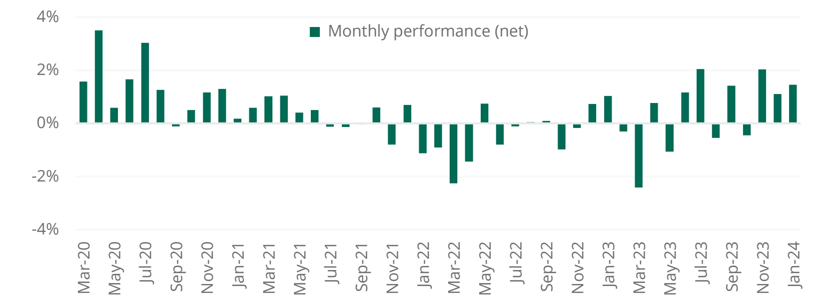
Data as of 31 October 2023

Country Exposure (%)



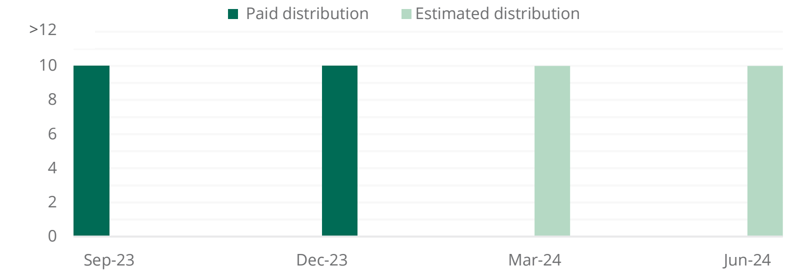
Data as of 31 October 2023

Monthly Performance



Cash Income

The Fund distributed 10CPU in January 2024. The next distribution will be declared in March 2024 and paid in April 2024.



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Fund Review

The Hybrid Opportunities Fund returned 1.45% for the month, net of fees. The Fund's performance was supported by coupon income, but specific thematics for which the fund has been positioned benefited from strong tailwinds. One such theme is the growing likelihood of call for some offshore instruments that is beginning to be reflected in strengthening capital prices.

Hybrid performance was positive but muted relative to the buoyant market environment sparked by the dovish December Federal Reserve meeting.

The Fund saw several relative value and switch trades during the month, but high-level composition remained unchanged. Portfolio positioning and cash levels are reflective of an expectation that momentum in hybrid markets observed in the latter part of 2023 can be maintained into 2024.

Outlook

This economic cycle is like no other and has defied all historical reference to date. While endless column inches opine about the timing and trajectory of interest rates, it is just as possible that 2024 sees little, if any, movement in interest rates across the developed world.

Leading indicators point to slowing growth but not a collapse. There's still risk of recession, but a degree of comfort exists because there is significant headroom to cut rates should the need arise.

We are most confident about the US economy relative to other developed markets, primarily because they are almost alone globally in maintaining high levels of productivity with strong employment growth. In contrast, Australia, Europe, and the UK are struggling to drive meaningful economic efficiency gains. These countries also have high immigration rates, bolstering headline GDP at the expense of anemic, or recessionary, per capita outcomes.

Chinese equity markets fell heavily in January in a move that is emblematic of the deeper structural issues that will continue to face the country over the coming decade. Policymakers are extremely reluctant to commit to major stimulus measures, fully cognisant of a populace that is still coming to terms with major ructions in property and employment markets.

Fiscal reticence in China is in stark contrast to its chief geopolitical rival, the United States. Heading into an election year stateside, we find it near enough to a certainty that any semblance of fiscal rectitude will be abandoned in the perennial battle to woo swinging voters. Simply speaking, this means government indebtedness is likely to accelerate higher, interest rates will remain higher for longer, and inflation will likely linger at rates above those desired.

Thus, as we posited earlier, the path of least resistance may be to do nothing with interest rates for the foreseeable future. If this scenario plays out, we are positive about the outlook for credit. Spreads remain at higher-than-average levels in Australia, but in some markets they have tightened noticeably and further highlighted the attractiveness of local corporate bonds from both fundamental and valuation perspectives.

We have noted in recent months that credit markets seem to be looking through geopolitical tensions and short-term market noise, but 2024 will present a range of challenges including a growing refinancing wall, for which elevated interest rates pose a distinct risk. Should the availability of capital be constrained as this refinancing wave gathers pace, we cannot rule out some spread widening as the current economic cycle matures. Daintree retains the view that the investment grade segment of the credit market is well placed to navigate near-term challenges and strong coupon income will remain the foundation of the return profile over time.