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

MONTHLY FACTSHEET: 29 February 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.

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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 in credit markets, a continuing theme in recent months.
- A growing likelihood of call for some offshore instruments is also being reflected in strengthening capital prices
- The Fund saw a small number of relative value and switch trades during the month, but overall portfolio composition remains very similar to last month.

Key Statistics

Modified Duration (Yrs)	0.79
Spread Duration (Yrs)	3.34
Running Yield (%)	6.18
Yield to Call (%)	7.15
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 29 February 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:

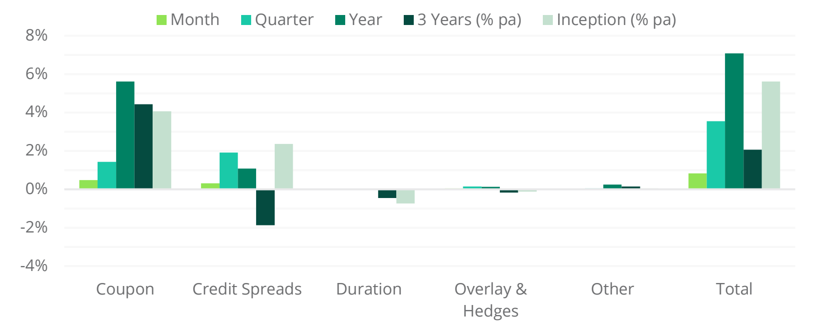
◊ BT Panorama ◊ HUB24 ◊ Macquarie Wrap ◊ Netwealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Year (% pa)	Inception (% pa)
Fund (gross)	0.83	3.55	7.09	2.07	5.61
Fund (net)	0.76	3.36	6.34	1.32	4.87
Distribution (net)	0.00	1.10	3.99	2.46	2.35
Growth (net)	0.76	2.26	2.35	-1.15	2.52
RBA Cash Rate	0.35	1.09	4.15	2.00	1.55
Excess Return	0.42	2.27	2.19	-0.68	3.32

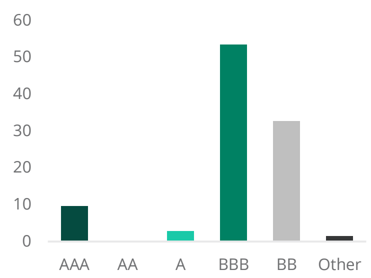
Note: Performance inception is 1 March 2020. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre-Fees)



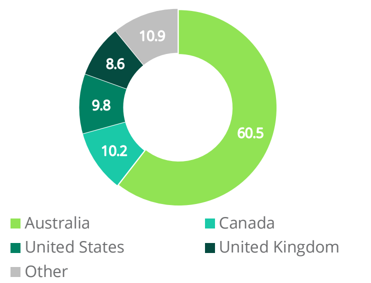
Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

Rating Exposure (%)



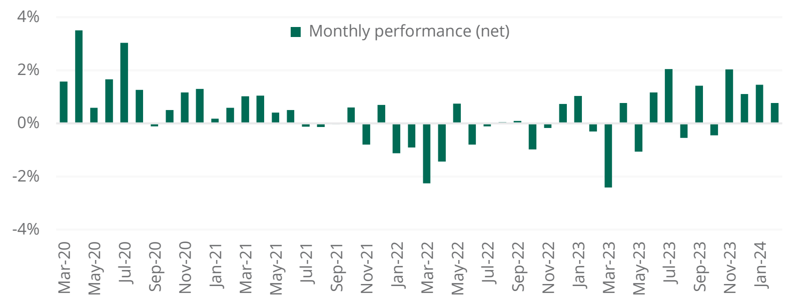
Data as of 30 November 2023

Country Exposure (%)



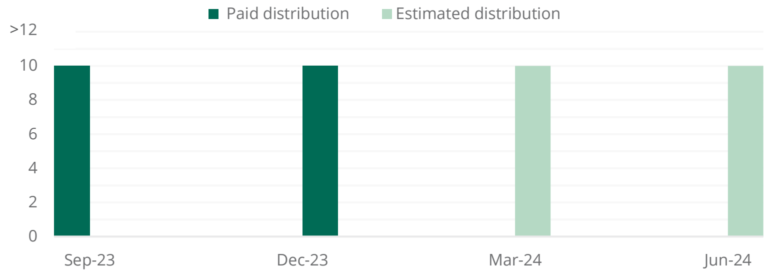
Data as of 30 November 2023

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 0.76% 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 continue to contribute. One such theme is the growing likelihood of call for some offshore instruments that is beginning to be reflected in strengthening capital prices. Indeed, February saw another offshore instrument called, this time in the United States.

Hybrid performance was positive but muted relative to similar risk assets, with the shares of most large banks in which the fund invests logging a strong month in February. We continue to keep a close eye on developments among smaller banks in the United States, where a temporary support programme is due to conclude mid-month.

The Fund saw a number of small relative value and switch trades during the month, but overall, composition remained unchanged. Attractive primary issues were being considered toward the end of the period, with one particular being added in early March. Portfolio positioning and cash levels are reflective of an expectation that the momentum of recent months in hybrid markets can be maintained in the short term.

Outlook

This economic cycle is like no other and has defied all historical reference to date. February saw significant recalibration of the expected trajectory of interest rates this year, bolstering our view (put forward in January) that the amount of easing priced for 2024 may be excessive. Despite the subsequent repricing, we continue to see the risks for the timing of the easing cycle in the US as skewed to a later than expected start.

Leading indicators point to slowing growth but not a collapse. Indeed, the latest data from Japan and the UK confirmed the start of technical recessions (being two consecutive quarters of negative GDP), despite the Japanese stock market breaking 34-year records and rising to an all-time high. While most economies struggle to wring inflation out of services prices, Japanese investors have cautiously started to believe that the deflation dragon may have finally been slain for good.

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 anaemic, or recessionary, per capita outcomes.

Australian employment data was uncharacteristically weak in January. On a seasonally adjusted basis, the unemployment rate rose to 4.1%. The key to the employment data in coming months is not just the level of unemployment, but the ability of the economy to continue producing jobs as the population grows. On this measure, the January data showed a small increase despite the rising unemployment figure.

One factor closely linked to employment is residential housing prices, which have continued their strong start to 2024. While the proportion of residential borrowers behind in payments is rising, it is still below pre-pandemic levels and well within manageable ranges for our well-capitalised banks.

If the macro environment supports a later start to easing cycles, we think this bodes well for credit markets. Spreads have largely returned to average levels in Australia, but in some non-AUD 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 the 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. Ironically, capital is plentiful for issuers right now, which may in itself provide a break on spread tightening as issuers take advantage of the conditions. 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.