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

MONTHLY FACTSHEET: 31 March 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

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

- High coupon receipts, narrowing of credit spreads and overlay strategies all drove returns for the month as credit markets continued their strong start to the year.
- 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.
- The Fund engaged in small relative value trades during the month, but overall portfolio composition remained unchanged.

Key Statistics

Modified Duration (Yrs)	0.61
Spread Duration (Yrs)	3.32
Running Yield (%)	6.27
Yield to Call (%)	6.47
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 March 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

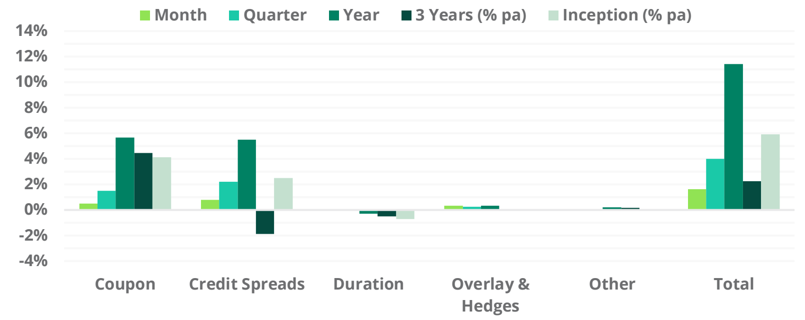
Signatory of: PRI Principles for Responsible Investment

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Year (% pa)	Inception (% pa)
Fund (gross)	1.61	4.00	11.41	2.24	5.91
Fund (net)	1.55	3.81	10.66	1.49	5.16
Distribution (net)	1.06	2.18	5.26	2.81	2.57
Growth (net)	0.49	1.64	5.40	-1.32	2.59
RBA Cash Rate	0.37	1.09	4.22	2.12	1.61
Excess Return	1.18	2.72	6.44	-0.63	3.55

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)

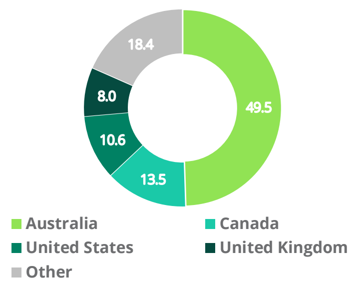


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

Rating Exposure (%)

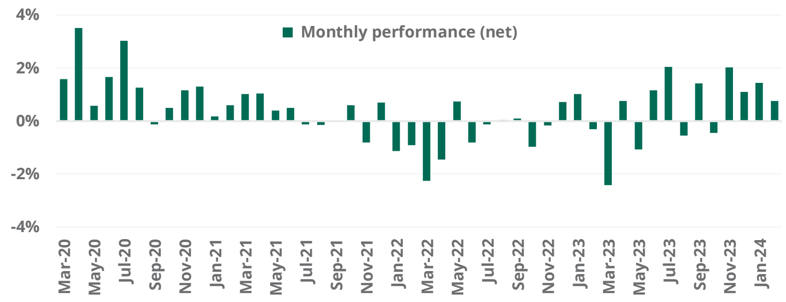
Data as of 31 December 2023

Country Exposure (%)



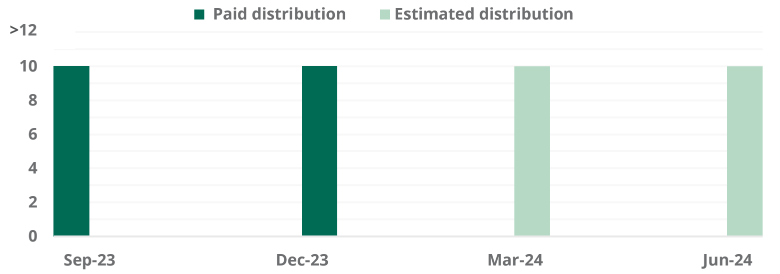
Data as of 31 December 2023

Monthly Performance



Cash Income

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



Proudly supporting: ONE TREE PLANTED

Fund Review

The Hybrid Opportunities Fund returned 1.55% 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.

We continue to keep a close eye on developments among smaller banks in the United States, where a temporary support programme has now concluded. We also have sought to engage with a range of hybrid issuers on a range of issues as part of our regular discussions. Early in April ratings agency S&P upgraded several Australian banks, including subordinated notes and hybrid securities. Price action was positive but confined to the wholesale subordinated notes, given our view that listed hybrids are already fully valued even after the upgrade.

The Fund saw several small relative value and switch trades during the month, but overall, portfolio composition remained unchanged. There was little in the way of primary issuance. 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

Recalibration of the expected trajectory for interest rates this year continued during March, driven by economic data that exceeded expectations. The vast majority of investors, analysts, commentators, pundits, and taxi drivers believe that interest rates will be cut at some stage in developed markets, but we hold fast to our view that they simply may not move from current levels this year. Because of generally high valuations across risk assets, there is concern that current multiples may be at risk of contraction without rate relief. We are less concerned in credit markets, however, where we view spreads as tight but fair.

Against this reasonably positive tone in markets, geopolitical uncertainty continues to rise. It is notoriously difficult to translate developments in this sphere into market impacts, but there can be no denying that the risks of unintended consequences are rising as the war in Gaza metastasises into a wider regional conflict. From an economic perspective, the challenges in the Middle East are translating into snarled supply chains given the inability of Western nations to secure the passage through the Suez Canal, and also on oil prices given the importance of the region in terms of both production and transport. A strongly rising oil price has the potential to interrupt disinflationary tailwinds on which the expected interest rate path is so heavily reliant.

The Bank of Japan took the momentous step of concluding its negative interest rate policy, along with a slate of measures aimed at slowly withdrawing accommodation that has been in place for close to two decades. The shift back to a zero percent cash rate from -0.1% was modest in gross terms, but the symbolism of the BoJ having sufficient confidence that inflation has rebounded to a desired level was meaningful. This confidence has been particularly evident in Japanese equities, where the Nikkei index has hit record highs in recent months. Coupled with a weak yen, Japanese exporters have been the biggest beneficiaries.

Australian data released last month included the Q4 GDP release, minutes of the latest RBA meeting and labour force estimates for March. The national accounts showed an economy losing momentum, particularly within the consumer and construction sectors. After a better January the consumer again struggled in nominal terms. On a more positive note, the labour market looks less alarming. After the February numbers, the key message is that the kick up in unemployment in the last few months reflected seasonal adjustment problems rather than a rapid deterioration in the labour market. That said, trend employment growth is currently running around 20k per month. To stabilise unemployment the required rate is nearer to 40k. Meanwhile, the market reaction to the RBA minutes suggested a belief that the committee has become less hawkish but maintained maximum flexibility by not ruling anything in or out regarding the future path of rates.

If the macro environment requires interest rates to hold steady for the foreseeable future, 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. This further highlights 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. Ironically, capital is plentiful for issuers right now, which may slow spread tightening as issuers take advantage of the conditions resulting increased supply. 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.

Issued by: The Investment Manager, Daintree Capital Management Pty Ltd (ABN 45 610 989 912), a Corporate Authorised Representative (CAR 001304218) of Perennial Value Management Limited (ABN 22 090 879 904, AFSL 247293). Responsible Entity: Perennial Investment Management Limited ABN 13 108 747 637, AFSL: 275101. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trust must be accompanied by an application form. The current relevant product disclosure document, additional information booklet, application form and target market determination can be found on Daintree's website www.daintreecapital.com.au.

The rating contained in this document is issued by SQM Research Pty Ltd ABN 93 122 592 036 AFSL 421913. SQM Research is an investment research firm that undertakes research on investment products exclusively for its wholesale clients, utilising a proprietary review and star rating system. The SQM Research star rating system is of a general nature and does not take into account the particular circumstances or needs of any specific person. The rating may be subject to change at any time. Only licensed financial advisers may use the SQM Research star rating system in determining whether an investment is appropriate to a person's particular circumstances or needs. You should read the product disclosure statement and consult a licensed financial adviser before making an investment decision in relation to this investment product. SQM Research receives a fee from the Fund Manager for the research and rating of the managed investment scheme.