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

MONTHLY FACTSHEET: 30 April 2024

Daintree CAPITAL

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

- Coupon income continues to drive Fund performance, again with some assistance from tighter credit spreads courtesy of specific thematics for which the fund has been positioned
- Portfolio positioning and cash levels are reflective of an expectation that momentum in hybrid markets can be maintained over the coming months

Key Statistics

Modified Duration (Yrs)	0.20
Spread Duration (Yrs)	3.20
Running Yield (%)	6.07
Yield to Call (%)	6.51
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 30 April 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:

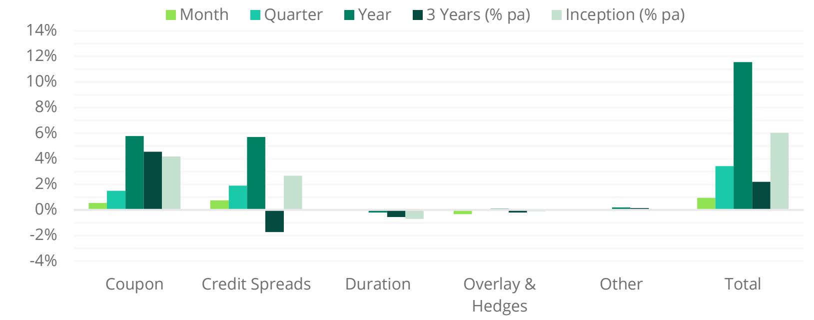
◊ BT Panorama ◊ HUB24 ◊ Macquarie Wrap ◊ Netwealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Year (% pa)	Inception (% pa)
Fund (gross)	0.95	3.42	11.54	2.19	6.02
Fund (net)	0.89	3.23	10.79	1.44	5.28
Distribution (net)	0.00	1.07	4.68	2.81	2.53
Growth (net)	0.89	2.16	6.11	-1.37	2.75
RBA Cash Rate	0.36	1.08	4.29	2.24	1.66
Excess Return	0.53	2.15	6.50	-0.80	3.61

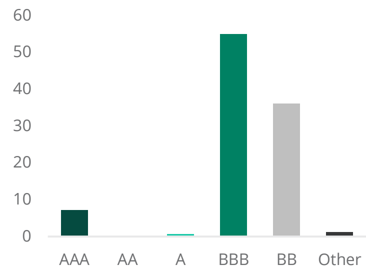
Note: Performance inception is 1 March 2020. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre-Fees)



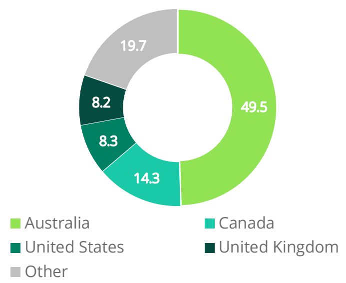
Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

Rating Exposure (%)



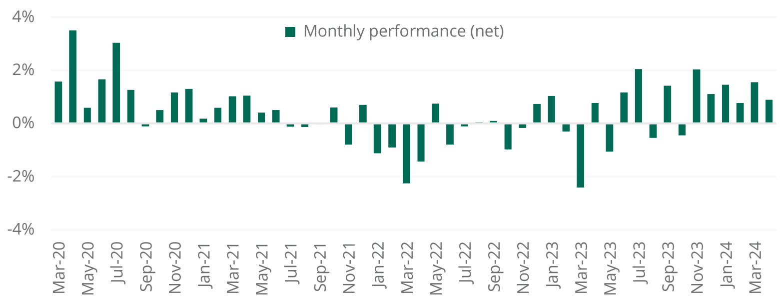
Data as of 31 January 2024

Country Exposure (%)



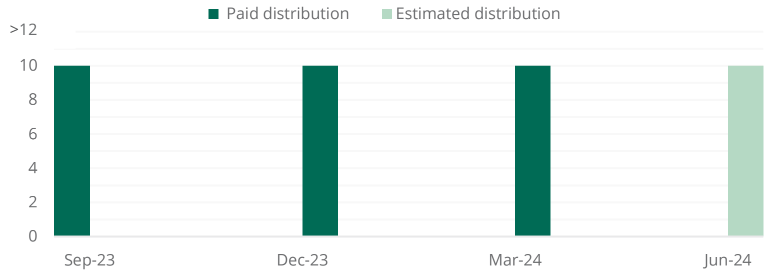
Data as of 31 January 2024

Monthly Performance



Cash Income

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



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Fund Review

The Hybrid Opportunities Fund returned 0.89% 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. We foresee that these tailwinds are likely to subside in the coming months, placing greater importance on the future income potential of the portfolio.

Spreads of Australian listed hybrids tightened during April and now look fully valued relative to history. There are good reasons for this performance given the underlying strength of the sector, but risk premia now more than fully incorporate this view. With a subdued outlook for lending growth, and several issuers announcing share buybacks as part of earnings announcements (indicating excess capital), we do not expect any net new issuance of hybrids this year. This limit on supply could be another driver of solid performance in the months ahead.

The Fund saw a number of small relative value and switch trades during the month, but overall, 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

The shifting outlook for interest rates impacted risk assets in April. Reality is dawning that the conditions necessary to allow cuts to start are taking longer to eventuate, largely courtesy of stubborn services inflation. Risk asset market performance is, however, still negating the tightening impulse of higher interest rates on financial conditions. Because of this, there is concern that current higher valuations (for example in US equities) may be unsustainable without rate relief. We are less concerned about this in credit markets though. Particularly in the local market, we now view spreads as fair after the tightening seen over the last few months. Spreads have largely returned to average levels in Australia, whereas in some non-AUD markets they have tightened noticeably. This has further highlighted the attractiveness of local corporate bonds from both fundamental and valuation perspectives.

Hotter-than-expected inflation data for Australia upended the interest rate outlook. We have been saying all year that underlying economic strength, high immigration, low unemployment, and hard-to-tame services inflation would be a difficult combination around which to ease monetary policy. Thus, the RBA was right to maintain a high degree of flexibility at its last meeting, not ruling out any future course of action. We retain our view that the most likely path for interest rates locally will be no change this year. Looking further into the future, however, the question of when cuts are likely to eventuate is more uncertain given the elongated path inflation is following towards the RBA target range. We still believe in an upcoming easing cycle as opposed to a continuation of the tightening cycle, but we readily concede that this view is more finely balanced now. From the perspective of credit markets this outlook is advantageous: A macro environment that requires higher interest rates for longer means greater medium-term certainty of income.

We have noted in recent months that credit markets seem to be looking through geopolitical tensions and short-term market noise. Despite this, we remain wary of geopolitical risks that are likely to play out 'slowly and then suddenly'. A range of challenges sit outside both the macroeconomic and geopolitical spheres as well, and how all these various considerations interact is likely to move more firmly into market consciousness over the coming months. For example, a growing refinancing wall is one challenge for which elevated interest rates pose a distinct risk. The US election is another event that will be influenced by changing interest rates. Capital may become constrained as this refinancing wave gathers pace, while US election uncertainties may reduce market risk appetite. Thus, we cannot rule out some spread widening as the current economic cycle matures. Ironically, capital is plentiful for issuers right now, and this is another factor that may in itself act as a brake on spread tightening as issuers take advantage of current conditions.

Daintree retains the view that the investment grade segment of the credit market is well placed to navigate near-term challenges, with strong coupon income set to remain the foundation of the return profile for some time to come.