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

MONTHLY FACTSHEET: 31 May 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.

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

- Coupon income continues to drive fund performance, but wider credit spreads were a detracter for the first time in several months
- Portfolio positioning and cash levels are reflective of an expectation that momentum in hybrid markets can be maintained in the short-term

Key Statistics

Modified Duration (Yrs)	0.60
Spread Duration (Yrs)	3.09
Running Yield (%)	6.23
Yield to Call (%)	6.77
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 May 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

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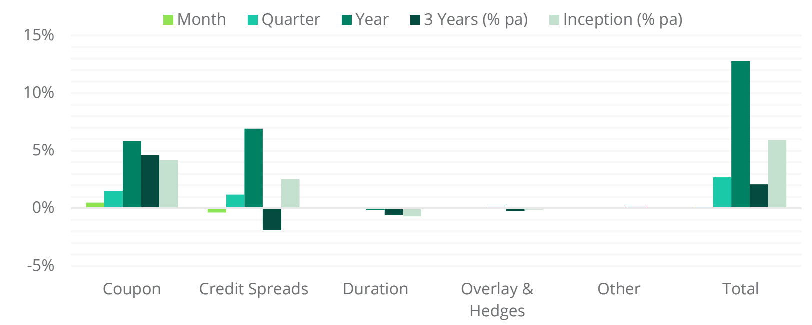
Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Year (% pa)	Inception (% pa)
Fund (gross)	0.10	2.68	12.77	2.07	5.93
Fund (net)	0.04	2.49	12.02	1.32	5.18
Distribution (net)	0.00	1.07	4.73	2.81	2.48
Growth (net)	0.04	1.42	7.29	-1.49	2.71
RBA Cash Rate	0.36	1.45	4.29	2.24	1.66
Excess Return	-0.32	1.04	7.74	-0.92	3.52

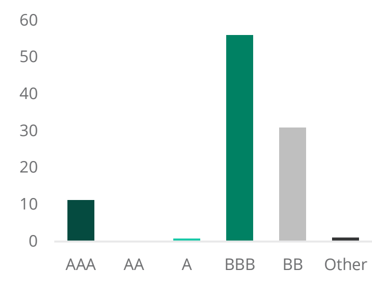
Note: Performance inception is 1 March 2020. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre-Fees)



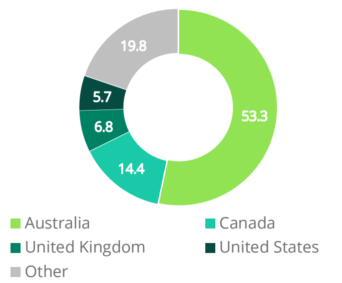
Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

Rating Exposure (%)



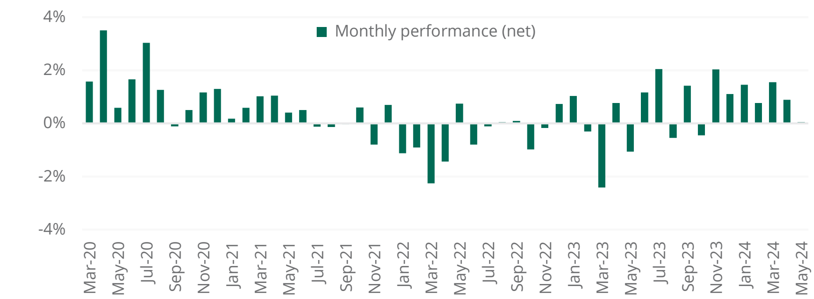
Data as of 29 February 2024

Country Exposure (%)



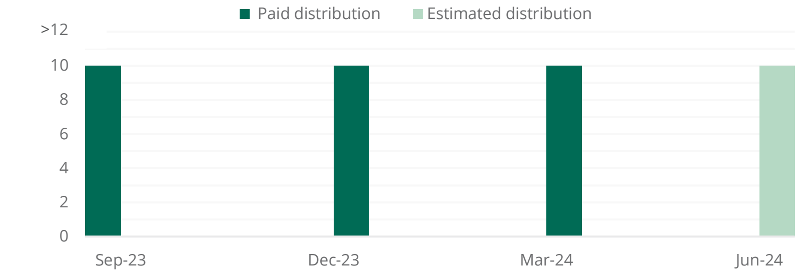
Data as of 29 February 2024

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 0.04% for the month, net of fees. The fund's performance was supported by coupon income, but credit spreads were a drag for the first time in several months. The overlay contribution was neutral for May.

Spreads of Australian listed hybrids underperformed their global peers but did so from an historically tight starting point. 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. While this market technical is supportive of tighter spreads, these securities are still susceptible to increases in volatility driven by economic or geopolitical events.

The fund saw several 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

Economic data generally disappointed in May, reviving hopes that the US easing cycle will begin this year. Conditions necessary to allow cuts to start are taking longer to eventuate, but last month it became evident that negative surprises were being treated as positive from the perspective of future interest rate levels. However, because of generally high valuations across risk assets, we remain of the view that markets may have already priced much of the purported easing cycle, leaving investors vulnerable to a "sell the fact" scenario once rates begin to moderate. We are less concerned about credit markets, however, where we view spreads as tight but fair.

Geopolitical uncertainty remains an unpredictable wildcard. But even here, several factors have snubbed the accepted wisdom about how these events might impact markets. For example, oil prices were weak again in May despite the lingering threat of supply issues and aggression from Ukraine attacking Russian terrestrial energy infrastructure. Competing regional blocs are finding less and less common ground, coinciding with a deterioration in trust among nations, especially those subject to Western sanctions. These restrictions of access to global financial networks are drawing the excluded few closer together as they seek to circumvent these roadblocks with their own networks. Rising trade disputes represent another frontier of challenge in the geopolitical sphere with implications for economic activity.

Indian elections were held in May, with the scope (encompassing more than 800m people) and duration (run over four weeks) creating some localised financial volatility. Results suggest Prime Minister Modi will win a third term despite a weaker than expected showing for his party. Meanwhile, an early election has been called in the UK, where the main issues of debate are immigration, the UK's relationship with the EU and the performance of the ruling Conservative Party which is polling poorly. When it comes to elections this year, all roads still lead to the United States in November, where the Republican candidate recently received a guilty verdict and there is still five months until polling day!

The Australian Federal Budget was handed down, headlined by a second surplus in as many years, while promising relief for households without adding to the inflationary impulse. Reactions were mixed, but absent from the document was any meaningful reform, save for a priorly announced redistribution of tax cuts. We view these as being neither inflationary or disinflationary in the short term, and the Budget overall doing little to tame underlying cost-of-living pressures.

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 brake 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.