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

MONTHLY FACTSHEET: 30 June 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, but wider credit spreads were a detractor for the second month running
- 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)	-0.06
Spread Duration (Yrs)	3.08
Running Yield (%)	6.40
Yield to Call (%)	6.61
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 June 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:

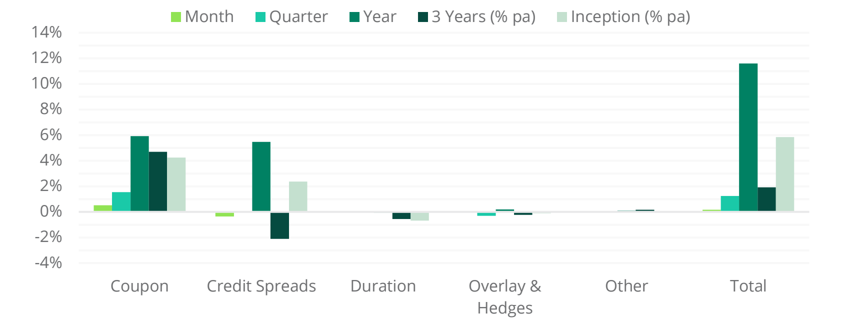
◊ BT Panorama ◊ HUB24 ◊ Macquarie Wrap ◊ Netwealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Year (% pa)	Inception (% pa)
Fund (gross)	0.17	1.23	11.60	1.93	5.85
Fund (net)	0.11	1.04	10.85	1.19	5.11
Distribution (net)	2.42	2.44	7.25	3.60	3.00
Growth (net)	-2.31	-1.40	3.60	-2.41	2.10
RBA Cash Rate	0.36	1.09	4.36	2.48	1.77
Excess Return	-0.25	-0.05	6.49	-1.29	3.34

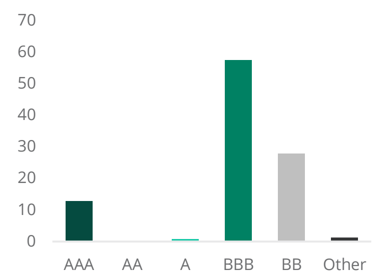
Note: Performance inception is 1 March 2020. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre-Fees)



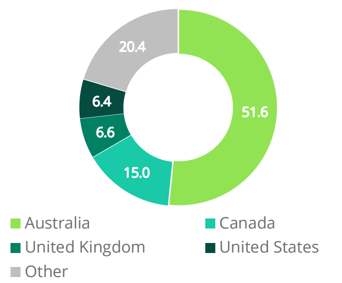
Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

Rating Exposure (%)



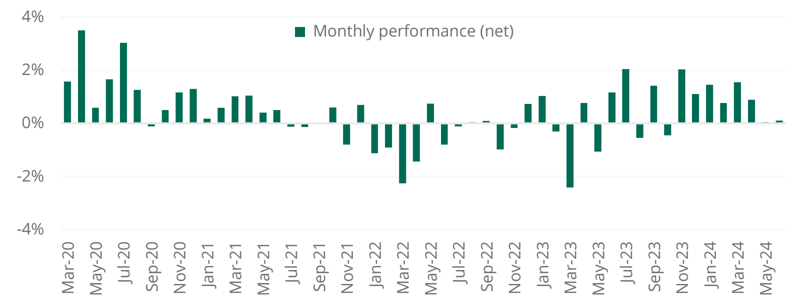
Data as of 31 March 2024

Country Exposure (%)



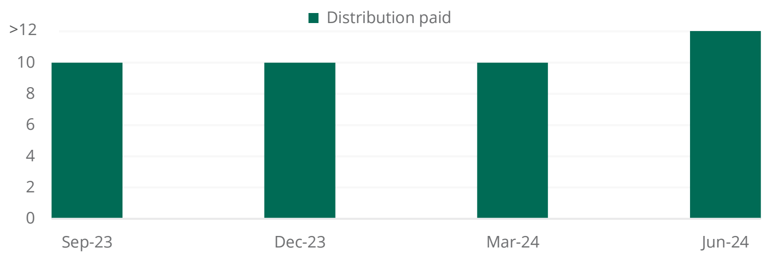
Data as of 31 March 2024

Monthly Performance



Cash Income

The Fund declared distributions totaling 23.206 cents per unit in June.



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Fund Review

The Hybrid Opportunities Fund returned 0.11% for the month, net of fees. The Fund's performance was supported by coupon income, but credit spreads were a drag for the second month running. Overlay positions were slightly positive for the month.

Hybrid spreads widened modestly again last month, but higher starting yields and changes in portfolio composition helped to ameliorate the impact on performance. Uncertainty stemming from snap elections in France saw the major banks domiciled there (such as Société Générale and BNP Paribas) endure fragile investor sentiment. We expect this to be short-lived given that election proposals are unlikely to be implemented in full, and at any rate are not unilaterally negative for the banks' medium-term outlook.

The Fund saw several small relative value and switch trades during the month, centering on getting the right balance between income and risk control. 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 continued to print with a downside bias relative to expectations in June, but risk assets did not seem to mind much. Market breadth in equities remains narrow, and the northern hemisphere summer promises to keep turnover and liquidity subdued. Ordinarily, this creates ideal conditions for choppier markets, but over the last few months it has become evident that negative surprises are being treated as positive from the perspective of future interest rate levels. We still believe that any benefits from future rate cuts are already priced in, but we have to concede that the looming US presidential election may constrain the Federal Reserve's ability to cut before November. Therefore, while hard to reconcile based on fundamentals, equity markets could retain their tendency to trickle higher in the months ahead. We think that this also applies to credit markets, where we view spreads as full but fair.

A surprising result in the first round of French elections saw the possibility of "cohabitation", where a party different to the President's party garners a majority in the National Assembly. This saw French equities fall by 5.8%, with even larger falls experienced by major banks such as BNP Paribas and Société Générale. Meanwhile, in the lead up to elections in the UK, the FTSE 100 index fell by only 1.3%. In both cases, credit investors have remained fairly sanguine. In our view, the French result is causing concerns for markets because of the medium-term implications for fiscal policy in a country that already carries a debt-to-GDP ratio of more than 110%. The political process will somewhat constrain the passage of big spending budgets, but we expect investors to monitor France closely as the political transition proceeds.

In Australia, the newer monthly inflation series surprised to the upside once again. Prior to the release, the prospect of a cut remained an outside chance, but acceleration in the annualised rate to 4% now has the market at a 50/50 chance of an increase by December. We note that some of the factors driving the recent numbers were based on economic activity from March and April, with base effects also in play in some more volatile elements of the basket. Clearly, in the context of deep cost-of-living concerns within the community, and a looming election within the next 12 months, an increase would set the cat decidedly amongst a whole flock of pigeons. However, while acknowledging that the path is narrow (and recent data has narrowed it even further), the RBA has noted that current settings are starting to have an impact, albeit at a slower pace than they would like. We remain of the view that the RBA will remain on hold in 2024, however recent developments have increased the risk of a hike later this year.

Investment grade credit continues to benefit from an advantageous mix of strong fundamental and technical factors. On the fundamental side, issuer balance sheets are in good shape and the consumer has been resilient, supporting earnings growth. In terms of market technical we note that flows into credit and fixed income funds have been positive all year, while new issuance has been priced with reasonable concessions to ensure robust demand from both professional and private investors. 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.