

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	0.7	1.7	2.4	6.5	2.8	2.4
RBA Cash Rate Total Return Index	0.4	1.1	1.5	4.4	3.0	2.7
Value Added	0.3	0.6	0.9	2.1	-0.2	-0.3

^Since inception: June 2021. Past performance is not a reliable indicator of future performance.

Overview

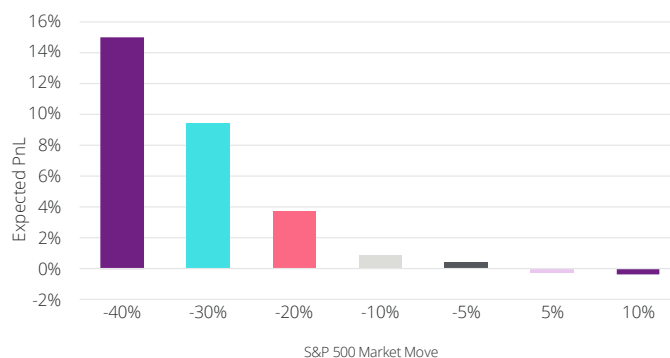
October saw US 10 yr yields move up 0.50%, from 3.78% to 4.28%, a staggeringly large move. This was off the back of improving economic data, and with an eye to the US election, where both presidential candidates campaigned on an inflationary platform, especially Trump. Despite all this movement, equity markets were sanguine, registering small losses. Protection, on the other hand, was well bid, especially short-tenor options, despite the modest level of realised volatility.

The Trust continued to perform strongly, gaining 0.7% net of fees. The Core Income strategy drove these gains, through coupon income, and tighter credit spreads. The overall tone in credit remains constructive, supported by a solid technical picture.

The Option Strategy was flat for the month as the bid to implied volatility, and options offset the natural monthly decay in the portfolio. The Put Write sleeve was re-initiated during the month as available premiums became more attractive.

Please note upcoming changes to the fund's operation detailed in the Trust Review section on the next page.

Estimated PnL Outcomes by Market Move



The chart provides the total expected portfolio PnL given a high velocity move in the S&P500. Source: Perennial Value Management. As at 31 October 2024.

The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Fund Characteristics

The Trust aims to generate income by harvesting equity, credit and volatility risk premia; with a conservative risk profile. A portion of this income is invested in an explicit rules-based equity option defensive strategy to offset, or benefit from, market drawdowns.

Portfolio Manager

Michael Pollard

Trust FUM

AUD \$32.9 million

Distribution Frequency

Quarterly

Minimum Initial Investment

\$50,000

Trust Inception Date

June 2021

Fees

0.6% p.a.

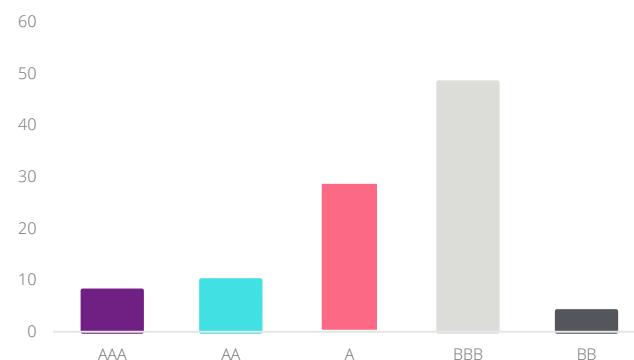
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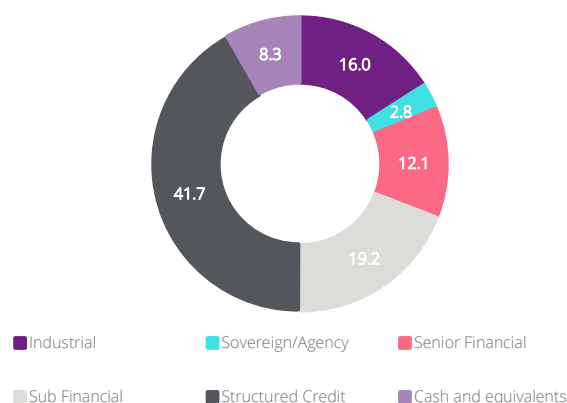
Expense Recovery

Capped at 0.1% p.a.

Rating Exposure



Sector Active Exposure



Portfolio Characteristics

Modified Duration (Yrs)	0.30
Spread Duration (Yrs)	2.90
Portfolio Yield (%)	6.64
Average Credit Quality	A-

Source: Perennial Value Management. As at 31 October 2024

Portfolio yield is the expected return over the next year, assuming no changes to either portfolio composition or market yields. Average credit quality excludes overlay positions. Portfolio yield and spread duration reflect the net credit default swap exposures in the portfolio.

Trust Review

The Core Income strategy registered strong gains for the month. The primary performance driver was coupon income, but credit spreads also contributed, while overlay was a small detractor.

The overall tone in credit remains constructive, with local spreads continuing to trend lower as they have for all of 2024. Gradually tightening spreads demonstrate the strong demand for investment grade bonds. Indeed, the fund has seen an unbroken run of almost two years where credit spreads have added to consistent coupon flows.

The Option Strategy was essentially flat for the month due to a bid for protection coming into the US election, which meant that revaluation of the Protection sleeve offset the natural monthly decay. The greatest bid was at shorter tenors, straddling the election itself, though the longer tenors where we tend to own protection also benefitted.

Please note that as of the 1st of December the Perennial Yield Plus Conservative Trust will be re-named as the Daintree Defensive Plus Trust. This follows from the appointment of Daintree Capital as the sole and exclusive manager of the strategy, with Michael Pollard also joining Daintree Capital from Perennial. Mark Mitchell and Justin Tyler, of Daintree Capital, have been added as Portfolio Managers of the Trust. As the Trust has reached a scale where execution costs are declining, the buy/sell spread will also be amended from 0.15% each way to 0.05% buy / 0.1% sell. In addition, the minimum investment amount will be lowered from \$50,000 to \$25,000.

Trust Activity

The Fund continues to selectively engage in new issuance to optimise future income potential. A slew of activity in structured credit has provided multiple opportunities to purchase desirable securities, however the spread compression in this part of the market has begun to trigger valuation questions. Portfolio positioning and cash levels will enable portfolio managers to nimbly respond to the evolving market environment.

In the Option Strategy the bid for short-tenor options became sufficiently appealing to re-initiate the Put Write sleeve, which was last traded in the back half of September. The exposure remains conservative, given the potential for a dislocation through the election period. Perhaps the largest tail risk around the election, that we identified, was the risk of a slim Kamala Harris victory which then resulted in widespread and escalating violence. We remained sufficiently defensive for such an outcome.

Outlook

Following the cut of 50 basis points in the Fed Funds rate in September, the response from yield curves has been confounding. Prior to the announcement, markets were priced on the expectation that once an easing cycle had commenced, longer-term yields would converge toward an estimation of the neutral rate. What we have observed is stronger-than-expected economic data, magnified by fiscal concerns as focus turned to the US presidential election. In our view, both candidates have little if any plans for fiscal discipline, and with interest payments on US federal debt now the largest single Federal budget expense, bond traders are reluctant to enthusiastically bid bonds here.

Japan saw the elevation of Shigeru Ishiba as its new Prime Minister following the abrupt resignation of predecessor Fumio Kishida, who struggled with poor approval ratings and from being implicated in political scandal. Importantly for markets, this did not signal any change to current monetary or fiscal policy settings. We believe that there is a remote chance of a rate increase to 0.5% at the December meeting, if the BOJ finds sufficient confidence in their inflation outlook, which currently forecasts core inflation staying above 2% per annum through 2026.

Energy markets remain rangebound, despite tensions in the Middle East and evidence of physical shortages at some energy hubs. In our view, there are technical factors suppressing the oil price, including concerns over Chinese demand. Doubts over OPEC+ persisting with current production quotas are also weighing on oil prices. Environmental concerns have been impeding the deployment of capital into new production and creating future supply uncertainty, but not enough to influence near-term price action. While conditions seem calm for now, energy markets remain in a state of fragile equilibrium.

In Australia, the possibility of a falling cash rate in 2024 becomes less likely with the passage of time. Principally, a resilient labour market will continue to hamper the RBA's ability to ease. Add to this a clear and obvious disconnect between fiscal and monetary policy such that even market expectations of a first cut in February 2025 look ambitious. Structural budget deficits are expected for the remainder of the forward estimates, making inflation harder to eradicate. Furthermore, those with housing debts are holding up well, with little signs of stress despite onerous mortgage costs. Therefore, while inflation is proving slower to return to target, there is no rush to meddle with settings that, on the whole, seem to be appropriately balanced.

Investment grade credit continues to benefit from an advantageous mix of strong fundamental and technical factors. From a macro perspective, easing financial conditions will be supportive. Issuer balance sheets are in good shape overall, with margins holding up as consumers remain resilient. In terms of market technicals, investment flows into credit and fixed income funds have been positive all year, supporting active primary markets. Daintree is confident that investment grade credit is well placed to navigate changing market conditions, even as valuations start to screen as fuller than they have been. Strong coupon income will help to dampen volatility and remain the foundation of the return profile over time.

As always, our aim will be to generate a running yield from credit and fixed income markets, with a conservative risk profile, whilst deploying an options strategy that carries flat to small positive with potential upside in a large equity drawdown. If market conditions make striking a balance between return and protection difficult, we would tend toward prioritising protection.

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