Perennial Yield Plus Conservative Trust

Monthly Report December 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	0.7	1.6	3.5	5.3	0.9
RBA Cash Rate Total Return Index	0.4	1.1	2.1	4.0	2.1
Value Added	**0.3**	**0.5**	**1.4**	**1.3**	**-1.2**

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

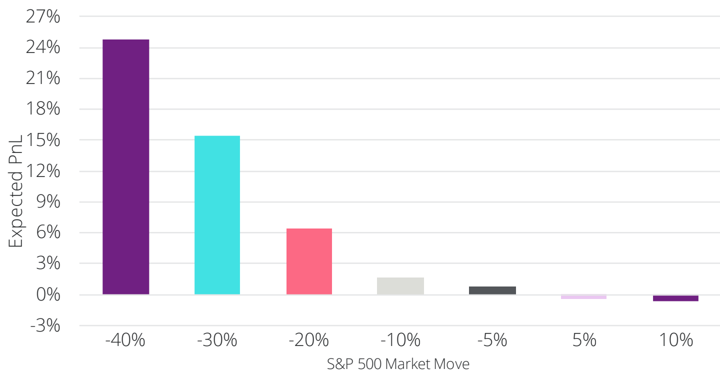
Overview

The Santa rally continued in December with risk assets performing strongly, and the US equity market setting fresh records. Once again, the main driver of the rally was another substantial move lower in US 10-years, with the soft-landing narrative firmly in the ascendancy. Implied volatility remained at historically low levels.

The Trust delivered a strong performance, with a gain of 0.7% for the month, net of fees. The Core Income strategy had a very strong month, driven largely by high coupon receipts and narrowing of credit spreads.

The Option Strategy dragged again this month, with a loss of 0.24%. This loss can largely be attributed to the positive equity moves and option decay, It should also be noted that after the deployment of the Protection Ratchet, the decay profile will be steeper than before, coinciding with very defensive positioning.

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 December 2023.

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 $27.3 million

Distribution Frequency
Quarterly

Minimum Initial Investment
$50,000

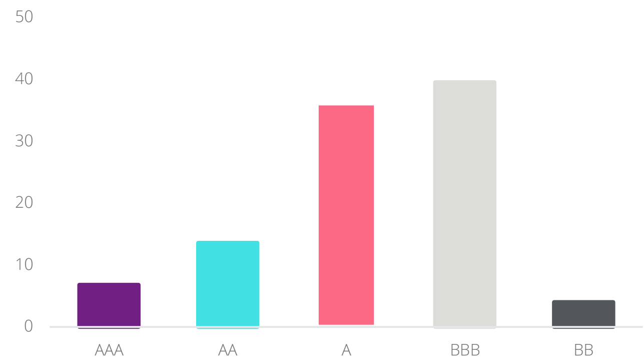
Trust Inception Date
June 2021

Fees
0.6% p.a.

APIR Code
WPC3204AU

Expense Recovery
Capped at 0.1% p.a.

Rating Exposure

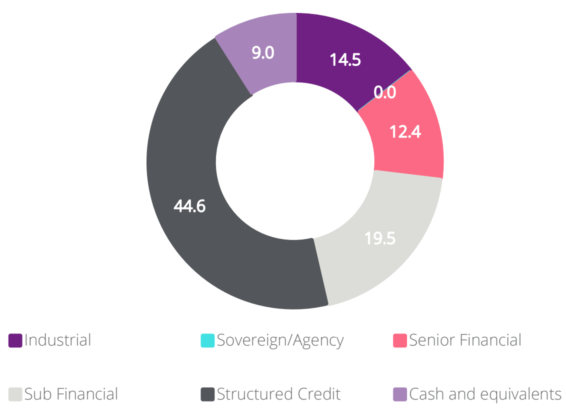


Portfolio Characteristics	
Modified Duration (Yrs)	0.26
Spread Duration (Yrs)	2.38
Portfolio Yield (%)	6.49
Average Credit Quality	A-

Source: Perennial Value Management. As at 31 December 2023

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.

Sector Active Exposure



Trust Review

The Core Income strategy's very strong performance through the month was balanced between tightening credit spreads and regular coupon income. Duration provided some additional support within the overlay book.

Credit markets remained resilient and saw some spread compression in continuation of the dominant theme of 2023. Based on recent spread performance, credit investors remained more focused on solid corporate fundamentals and a supportive technical backdrop as year-end approached.

The final Protection Ratchet spending was implemented during the month, with the market action through November and December vindicating our patient deployment. This leaves the overall strategy very defensively positioned, which is a compelling proposition when equity markets are priced to perfection and option costs have been so low.

The fact that the Core Income strategy is performing so well whilst the Option Strategy is seeing increased drag, due to the ratchet and market action, is very much by design. We believe that when risk is compressed, that the market is more vulnerable to event risk or a true dislocation, and the strategy is well positioned to benefit from such an outcome.

Trust Activity

The Fund selectively engaged in new issuance, although activity tapered off considerably over December. Portfolio positioning and cash levels are reflective of an expectation that momentum in investment grade credit markets can be maintained into 2024.

Aside from the final Protection Ratchet spending, a number of Put Write rolls were executed through the month. The strategy is currently carrying a slightly larger Put Write notional than it has done for some time, given the otherwise defensive profile of the strategy. Still, put Write premiums are currently low, so a larger allocation is not warranted at this point.

Outlook

Market conditions continued November's trend, reinforced by a remarkable shift in sentiment after a dovish December meeting of the US Federal Reserve. Bond yields fell precipitously, providing a strong impetus for risk assets to respond accordingly.

While Daintree was well positioned to benefit from this move, the strength and speed of the market reaction relative to the underlying fundamentals leaves us a little more circumspect. Having largely resolved the temporary factors driving the CPI, we are yet to be convinced that the "last mile" of bringing core inflation back to target can be achieved with the current policy toolkit. Using Australia as an example, tensions are growing between monetary and fiscal approaches to moderate inflation without exacerbating cost-of-living, which continues to be a hot-button political issue here and around the world.

Important employment updates exceeded expectations, while central bank officials both in the US and abroad tried, in vain, to temper expectations of a significant dovish pivot taking hold across the monetary policy spectrum in 2024. Investors either couldn't (or didn't want to) heed the nuance in their messaging as the "silly season" loomed.

Arguably, robust labour market conditions were the biggest contributor to market resilience in 2023. Continued strength is pivotal to a more positive outlook for 2024 because we believe that low unemployment translates into stability in residential property prices, consumption and ultimately prices via a natural rebalancing of demand and supply.

Credit spreads tightened in December but did not get caught up in the near euphoric performance of other risk assets. 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. 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.

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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