Perennial Yield Plus Conservative Trust

Monthly Report January 2024

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	0.5	1.3	4.0	5.3	1.1
RBA Cash Rate Total Return Index	0.4	1.1	2.5	4.1	2.2
Value Added	**0.1**	**0.2**	**1.5**	**1.2**	**-1.1**

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

Overview

Equity markets started the new year with further gains in January, though the pace moderated from prior months as investors began to question the likelihood of a series of rate cuts from the Fed, starting in March. Implied volatility finished the month at slightly higher levels than December, but still very low overall.

The Trust delivered another strong performance, with a gain of 0.45% for the month, net of fees. Once again, the Core Income strategy had an excellent month, driven largely by high coupon receipts and narrowing of credit spreads.

The Option Strategy lost 0.16%, which is less than prior months, due to the ongoing rally in equity markets and monthly option decay. With implied volatility still very low, and given elevated markets, the Put Write component had zero notional exposure at the end of the month. Expected profit in a market drawdown looks very strong.

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 $27.5 million

Distribution Frequency
Quarterly

Minimum Initial Investment
$50,000

Trust Inception Date
June 2021

Fees
0.6% p.a.

APIR Code
WPC3204AU

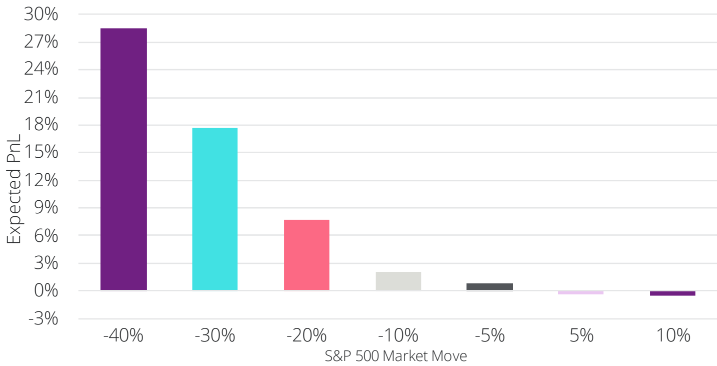
Expense Recovery
Capped at 0.1% p.a.

Portfolio Characteristics	
Modified Duration (Yrs)	0.26
Spread Duration (Yrs)	2.69
Portfolio Yield (%)	6.72
Average Credit Quality	A-

Source: Perennial Value Management. As at 31 January 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.

Estimated PnL Outcomes by Market Move

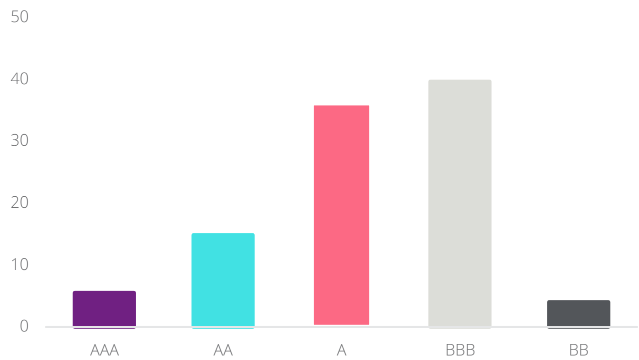


The chart provides the total expected portfolio PnL given a high velocity move in the S&P500.

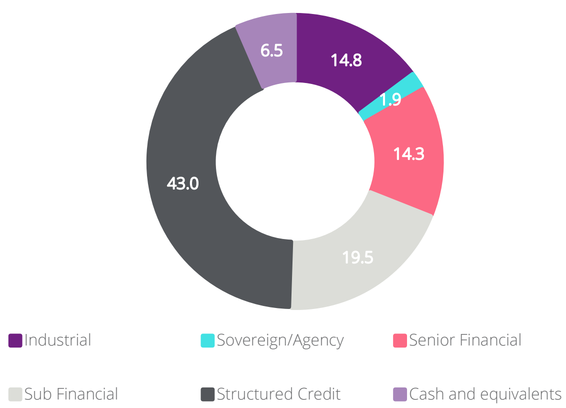
Source: Perennial Value Management. As at 31 January 2024.

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.

Rating Exposure



Sector Active Exposure



Trust Review

The Core Income strategy had another strong month, driven by coupon income with support from credit spreads, while duration expressions in the overlay book gave back some of the solid contributions of recent months.

Credit markets remain resilient and saw some spread compression in continuation of the dominant theme of 2023. Based on recent spread performance, credit investors remain focused on solid corporate fundamentals and a supportive technical backdrop.

The losses on the Option Strategy moderated from recent months and, all other things equal, the rate of decay should continue to decline in coming months. This is because the strong market rally and declining implied volatility, since the Protection Ratchet was implemented, front-loaded the decay in the option portfolio. Conversely the expected profit in a market drawdown remains very strong.

Trust Activity

The Fund selectively engaged in new issuance, although activity remained subdued over the holiday period. Portfolio positioning and cash levels are reflective of an expectation that momentum in investment grade credit markets can be maintained into 2024.

A number of Put Write rolls and unwinds were executed profitably through the month, leaving the Put Write exposure at zero by end of month. The decision to hold zero exposure was made as equity markets remained elevated, whilst bond yields were re-pricing upwards, and short-tenor option prices did not offer enough premium to make writing these options attractive.

Outlook

This economic cycle is like no other and has defied all historical reference to date. While endless column inches opine about the timing and trajectory of interest rates, it is just as possible that 2024 sees little, if any, movement in interest rates across the developed world.

Leading indicators point to slowing growth but not a collapse. There's still risk of recession, but a degree of comfort exists because there is significant headroom to cut rates should the need arise.

We are most confident about the US economy relative to other developed markets, primarily because they are almost alone globally in maintaining high levels of productivity with strong employment growth. In contrast, Australia, Europe, and the UK are struggling to drive meaningful economic efficiency gains. These countries also have high immigration rates, bolstering headline GDP at the expense of anaemic, or recessionary, per capita outcomes.

Chinese equity markets fell heavily in January in a move that is emblematic of the deeper structural issues that will continue to face the country over the coming decade. Policymakers are extremely reluctant to commit to major stimulus measures, fully cognisant of a populace that is still coming to terms with major ructions in property and employment markets.

Fiscal reticence in China is in stark contrast to its chief geopolitical rival, the United States. Heading into an election year stateside, we find it near enough to a certainty that any semblance of fiscal rectitude will be abandoned in the perennial battle to woo swinging voters. Simply speaking, this means government indebtedness is likely to accelerate higher, interest rates will remain higher for longer, and inflation will likely linger at rates above those desired.

Thus, as we posited earlier, the path of least resistance may be to do nothing with interest rates for the foreseeable future. If this scenario plays out, we are positive about the outlook for credit. Spreads remain at higher-than-average levels in Australia, but in some markets, they have tightened noticeably and further highlighted the attractiveness of local corporate bonds from both fundamental and valuation perspectives.

We have noted in recent months that credit markets seem to be looking through 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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