Perennial Yield Plus Conservative Trust

Monthly Report February 2024

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	0.5	1.7	4.6	5.6	1.3
RBA Cash Rate Total Return Index	0.3	1.1	2.9	4.2	2.3
Value Added	**0.2**	**0.6**	**1.7**	**1.4**	**-1.0**

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

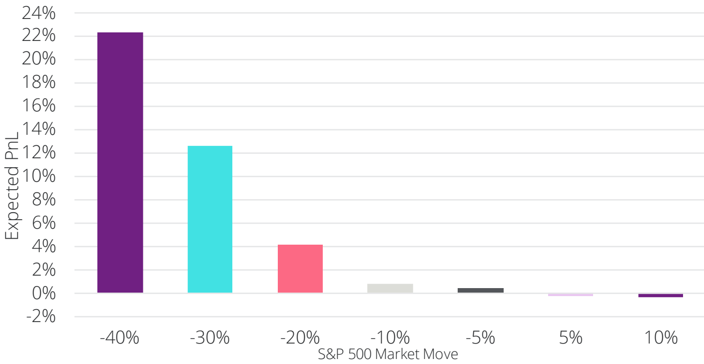
Overview

Equity markets continued their impressive run in February, gathering pace once more after slower gains in January. This came despite a jump higher in US rates, with the 10-year gaining 0.34%. Much of the recent equity gains have been driven by AI-exposed stocks, particularly Nvidia. Such a narrow market may be cause for concern.

The Trust delivered another strong performance, with a gain of 0.58% for the month, net of fees. In line with recent months, the Core Income strategy enjoyed very strong gains, driven largely by high coupon receipts and narrowing of credit spreads, as well as overlay strategies.

The Option Strategy lost 0.29%, an increase on last month, as the equity rally and subdued implied volatility has accelerated option decay. Market conditions have essentially brought forward future option decay, meaning lower drag going forward.

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 29 February 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 $27.0 million

Distribution Frequency
Quarterly

Minimum Initial Investment
$50,000

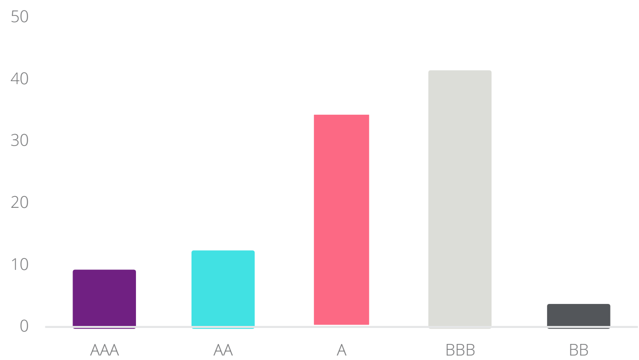
Trust Inception Date
June 2021

Fees
0.6% p.a.

APIR Code
WPC3204AU

Expense Recovery
Capped at 0.1% p.a.

Rating Exposure

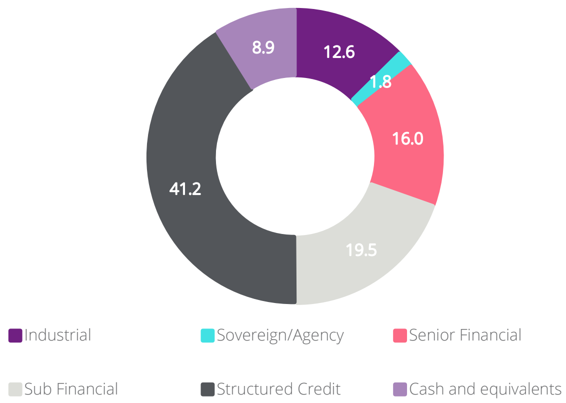


Portfolio Characteristics	
Modified Duration (Yrs)	0.31
Spread Duration (Yrs)	2.65
Portfolio Yield (%)	6.67
Average Credit Quality	A-

Source: Perennial Value Management. As at 29 February 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.

Sector Active Exposure



Trust Review

The Core Income strategy's strong performance was driven by coupon income with support from credit spreads, with all major sub-sectors contributing to the positive tone. The Fund retains a small positive duration position, which modestly tempered the overall result as rates finished February slightly higher, but other overlay strategies more than made up for this.

There are strong technical and fundamental tailwinds for credit markets in the short term. Active issuers in the corporate bond market reported generally solid results during reporting season, with investors rewarding these results with tighter spreads.

Market action has brought forward future decay on the Option Strategy, meaning that the expected drag going forward has been meaningfully reduced. Expected profit in a market drawdown remains very strong, though is somewhat reduced from last month when the Put Write was fully unwound.

Trust Activity

The Fund selectively engaged in new issuance as activity materially increased, with such a wide variety of choice that some discretion was prudent. Portfolio positioning and cash levels are reflective of an expectation that momentum in investment grade credit markets can be maintained into 2024.

The Put Write strategy was re-engaged during the month, after it became clear that equity markets were in no mood to take a meaningful breather. Two tranches were initiated, and were close to early profit-taking levels by the end of the month.

Outlook

This economic cycle is like no other and has defied all historical reference to date. February saw significant recalibration of the expected trajectory of interest rates this year, bolstering our view (put forward in January) that the amount of easing priced for 2024 may be excessive. Despite the subsequent repricing, we continue to see the risks for the timing of the easing cycle in the US as skewed to a later than expected start.

Leading indicators point to slowing growth but not a collapse. Indeed, the latest data from Japan and the UK confirmed the start of technical recessions (being two consecutive quarters of negative GDP), despite the Japanese stock market breaking 34-year records and rising to an all-time high. While most economies struggle to wring inflation out of services prices, Japanese investors have cautiously started to believe that the deflation dragon may have finally been slain for good.

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.

Australian employment data was uncharacteristically weak in January. On a seasonally adjusted basis, the unemployment rate rose to 4.1%. The key to the employment data in coming months is not just the level of unemployment, but the ability of the economy to continue producing jobs as the population grows. On this measure, the January data showed a small increase despite the rising unemployment figure.

One factor closely linked to employment is residential housing prices, which have continued their strong start to 2024. While the proportion of residential borrowers behind in payments is rising, it is still below pre-pandemic levels and well within manageable ranges for our well-capitalised banks.

If the macro environment supports a later start to easing cycles, we think this bodes well for credit markets. Spreads have largely returned to average levels in Australia, but in some non-AUD 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 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 break 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.

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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