seed FUNDS MANAGEMENT

Fund Dashboard

30 April 2024

37
Number of Holdings*

4.1 Years
Weighted Average Term to Call

7.45%
% Yield to Call (Portfolio as bought)

6.31%
% Yield to Call (Portfolio if bought today)

6.15%
Running Yield

24%
Top 5 Holdings As % of Fund*

0.32 Years
Interest Rate Duration^

97%
Portfolio Floating Rate

Source: Seed Funds Management. As at 30 April 2024.

*Excluding cash.
^Maximum duration of 1.

Hybrid Income Fund Strategy Net Performance

30 April 2024

FIGURE 1.

	1 Month	3 Months	6 Months	1 Year	3 Years Annualised	5 Years Annualised	SI (Sep 15) Annualised
HYBRID INCOME FUND STRATEGY	0.84%	2.33%	4.77%	8.30%	5.41%	5.88%	**6.33%**
Hybrid Benchmark (Solactive*)	1.19%	2.76%	4.58%	6.89%	3.93%	4.13%	**4.82%**
RBA Cash Rate	0.36%	1.09%	2.19%	4.28%	2.24%	1.55%	**1.58%**

The performance table above represents The Hybrid Income Fund Strategy ("Strategy"). The Strategy commenced in September 2015 and has been continuously operated with identical investment parameters and processes by its portfolio manager, Nicholas Chaplin. The Strategy began in 2015 as the Paraclete Investment Fund until June 2022. The Hybrid Income Fund commenced in June 2022 operating under Evolution Trustees as trustee. Investment management services were novated to Seed Funds Management in March 2024. Performance figures for the Strategy to March 2024 have been reviewed in accordance with ASRS 4400 "Agreed-Upon Procedures Engagements" by Hall Chadwick Corporate (NSW) Limited.

Monthly Commentary

April continued to see strong support for both Tier 1 and Tier 2 capital instruments particularly following S&P's upgrading of bank issue credit ratings for both major banks and regional banks. The one notch upgrade announced in April saw mandates able to take on a heavier exposure to regional Tier 2 and major bank Tier 1. S&P particularly noted an industry-wide reduction in risks due to the continued strengthening of regulatory and governance standards in the Australian banking industry. The effect has been a material tightening in margins across most issues.

The unit price (after the most recent distribution) on 30 April 2024 was $1.0589. The unit price is published weekly on our website here.

As at 30 April, the weighted average yield to call of the portfolio was 7.45%. This is the yield of the portfolio to its collective call dates based on the prices at which each security was purchased. Please note we also show below the yield to call based on security prices today. The running yield of the portfolio was 6.15%.

Franking credits have added an additional 0.97% to returns over the last 12 months with 31% of the portfolio receiving full franking value. Franking credit exposure is reduced with additional investment in Tier 2 securities or senior bonds as these are debt instruments for tax purposes.

Fund returns are made up of three key aspects: 1) regular distributions (either taken as cash or reinvested according to your preference, 2) franking credits associated with these distributions, and 3) changes in the capital value (unit price) over time.

We continually measure the relative value of the prime asset classes of the fund and adjust weightings actively. On 30 April, the fund was holding 36.0% Tier 1 instruments (including both listed and wholesale), 53.8% Tier 2 instruments, 7.5% senior bonds, and 2.8% cash. Figure 2 on Page 2 depicts these current allocations. The average credit rating of the portfolio is investment grade at BBB.

Key Portfolio Moves in April

The new Westpac Tier 2 issue (April '29 call) was purchased in March, settling in early April. We saw it trade well on issuing and took the issue premium before determining to use the funds elsewhere within the portfolio. We completed selling this issue in late April and moved the funds to the underpriced Australian Unity listed senior bond, picking up approximately 0.70% in the process on top of the capital gain on the Westpac sub note.

*Solactive Australian Hybrid Index (Net)

We invested into the new Suncorp hybrid (SUNPJ), however we note it offers the tightest margined issue by Suncorp since the introduction of Basel 3 structures in 2012. The 2.80% margin currently provides a yield of 7.20% so a presentable addition to the portfolio.

The oldest BOQ hybrid comes up for call in mid-August. This issue went ex-distribution on its penultimate distribution during April Post ex-date, we took the opportunity to lighten our holding of this issue, selling into typical market demand for short-term hybrids.

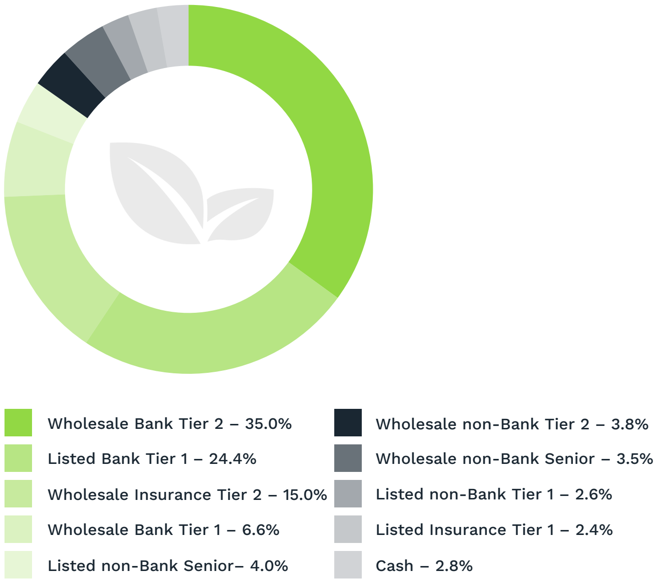
BOQPE's final distribution of $1.40 presents a 'line in the sand' valuation for selling this instrument before the call date. This is due to the final value at call being circa $101.40. We would not buy above this price. We expect the market to continue to support the secondary price of BOQPE over the next 4 to 6 weeks.

We expect bank issuance of Tier 2 to continue throughout 2024 – see note below re. NAB's comment accompanying its half-year results.

Portfolio Holdings

(as at 30 April 2024)

FIGURE 2.



Interest Rates are Not Headed Down Soon

It shouldn't really be a surprise to the market that the need to reduce rates by the RBA and other global central banks is not urgent. The latest comments from the US are sobering as it was just reported that progress toward the inflation target of 2% (versus the range of 2% to 3% in Australia) was too slow and had not really progressed at all through March. A very similar story of inflation-management to our own.

The US inflationary outcome is only one indicator of many for Australian investors but the economic situation here is similar at least in terms of resilience in employment and stabilising real incomes. Unique aspects such as Australia's consistent trade surpluses (continuous over the last 7 years) is also indicative of other broader positive influences on our economy.
The RBA's job is not an enviable one at present and their most recent comment around the direction of interest rates was that "the outlook remains highly uncertain". A good time to remain focused on floating rate bond investment.

NAB Provides Half-Year Update on Capital

NAB reported their requirement to issue $5 billion in Tier 2 capital under the APRA loss-absorbing capital requirements by January 2026. This is made up of $1.6 billion in new issuance together with $3.4 billion of refinancing over the 20-month period. This should be well achievable given liquidity for Tier 2 issues although it may pay for NAB to consider a franked Tier 1 issue on the basis that the cash cost benefit upfront from issuing a Tier 1 hybrid versus a new Tier 2 offer would be around 120 basis points. NAB has no hybrid issues due for call until June 2026 so any new issue would be without a rollover offer.

Hybrid Income Fund to Enable Retail Investors - Amendment to Constitution

As mentioned recently, we are progressing work to enable the fund being made available for retail investors as well as wholesale investors. This will not impact on current investors other than we will be lowering the management fees for the fund from the current 0.70% to 0.55%.

We will be taking the opportunity to also optimise the fund's frequency of distribution and unit pricing. Once the fund moves to a retail offering, distributions will be monthly and unit pricing will be updated daily.

In order to progress the retail PDS, we will need to convene a meeting of unitholders so that we can update the Constitution of the fund. This will effectively be done by providing investors with 21 days notice of the meeting. Attendance at the meeting is not mandatory and investors can provide any voting by proxy. Attendance can be either by video or in person.

With the amended Constitution, the manager should be in a position to issue the fund's PDS during June.

SEED FUNDS MANAGEMENT

Expert Management

The HIF provides access to highly skilled specialist management, with extensive expertise in regulated capital products including hybrids, subordinated debt and mutual equity.

Senior Portfolio Manager

Nicholas Chapin is an authority in the Hybrid and capital issuance market having structured, originated, distributed, and educated on many issues since 1998.

Over his career he has originated over $200 billion in hybrid & capital issues. From 2009 to 2021, Nick was Head of Hybrid & Structured Capital at NAB and prior to that he was Head of Hybrid Origination at Westpac.

Unit Pricing:	Weekly
Applications:	Weekly
Distributions:	Quarterly
APIR Code:	EVO3184AU
Management Fee:	0.70% per annum
Performance Fee:	Not Applicable
Website:	Click here
Offer Document:	Click here
How to Apply:	Click here
Contact Details:	Click here

Fund Information

The Hybrid Income Fund strategy was established in September 2015.

Hybrid Income Fund (HIF) actively invests in a diversified portfolio of financial capital with a heavy weighting to Australian-regulated capital instruments. The underlying securities include hybrids (Tier 1 capital notes and convertible preference shares), Tier 2 bonds, subordinated debt, senior debt, mutual capital instruments and cash. The Fund typically holds ~40 positions whose underlying issuers are banks, insurance companies and non-bank lenders.

Fund Objective

HIF aims to provide returns that exceed the hybrid benchmark on a net basis. The Fund has a meaningful track record of exceeding its target after fees through active management with low volatility and access to franking credits.

The Hybrid Market

The listed hybrid market includes issues totalling approximately $45 billion across a broad range of financial and corporate issuers. In focusing on the financial issuers in this market, over 90% of listed hybrid issuers will be available for investment. Additional diversity will be achieved via investment in wholesale unlisted senior, hybrid capital issues and subordinated bonds issued by banks, insurers and other financial entities.

The Investment Strategy

The investment manager intends to apply a tactical approach in terms of which securities it invests in and the timing of such investments with a focus on delivering a robust risk adjusted yield through market and interest rate cycles.

The investment manager will:

- Manage interest rate risk by holding predominantly floating rate instruments;
- Provide portfolio diversity by security type, credit risk, duration and issuer;
- Aim to distribute franking credits;
- Aim to provide regular income.

Platform listings

HUB24 · Australian Money Market · præmium · Powerwrap · netwealth

Glossary

The following details are provided to assist in understanding of terms used in this report:

Credit Spread Duration: Measures the sensitivity of a bond's price to changes in its credit spread. This measure reflects the potential change in the bond's value in response to a 100-basis point (1%) change in the credit spread. For example, if credit spreads tighten by 100 bps for a portfolio with a credit spread duration of 2.5 years, it will result in a + 2.5% return assuming all else is equal.

Interest Rate Duration: The weighted maturity of a fixed-income investment's cash flows, considering all coupon interest payments and the maturity date - used in the estimation of the price sensitivity of fixed-income securities for a given change in interest rates i.e. shorter duration bonds are less sensitive to interest rate movements than long bonds.

Running Yield: The ratio of interest to the current market price of the bond, stated as a percentage. For example, a bond with a current market price of $100 that pays $6 per year in interest would have a running yield of 6%.

Yield to Call: A yield on a security calculated by assuming that interest payments will be paid until the call date, when the security will be redeemed at the call price.

Yield to Maturity: A yield on a security calculated by assuming that interest payments will be made until the final maturity date, at which point the principal will be repaid by the issuer. Yield to maturity is essentially the discount rate at which the present value of future payments (investment income and return of principal) equals the price of the security.

General Disclosures