seed FUNDS MANAGEMENT

Fund Dashboard

(as at 31 March 2024)

38
Number of Holdings*

4.2 Years
Weighted Average Term to Call

7.49%
% Yield to Call (Portfolio as bought)

6.20%
% Yield to Call (Portfolio if bought today)

6.31%
Running Yield

24%
Top 5 Holdings As % of Fund*

0.35 Years
Interest Rate Duration^

97%
Portfolio Floating Rate

Source: Seed Funds Management. As at 31 March 2024.

*Excluding cash.
^Maximum duration of 1.

Hybrid Income Fund Strategy Net Performance

(as at 31 March 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	0.72%	1.93%	4.14%	7.83%	5.46%	5.88%	**6.29%**
Hybrid Benchmark (Solactive)	0.81%	1.95%	2.91%	6.73%	3.81%	3.98%	**4.73%**
RBA Cash Rate	0.36%	1.09%	2.17%	4.21%	2.12%	1.50%	**1.55%**

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 have been reviewed in accordance with ASRS 4400 "Agreed-Upon Procedures Engagements" by Hall Chadwick Corporate (NSW) Limited.

Monthly Commentary

The March Monthly Report represents the first report since re-naming our fund the Hybrid Income Fund following the novation of the fund to Seed Funds Management. The Seed team are a well-respected corporate advisory and distribution firm with a long history of partnering with established fund managers. The partnership with Seed Funds Management will enable the fund to progress to a PDS-offer in the short term while potentially enhancing the fund's capacity to support its growing investor base.

Figure 1 highlights that the Hybrid Income Fund (HIF) strategy has an 8+ year performance track record. As a part of its due diligence on the fund, Seed Funds Management engaged the services of Hall Chadwick Corporate (NSW) Limited (chartered accountants) to verify the performance of the Hybrid Income Fund strategy by testing the accuracy of data that determines fund returns and performance tables, providing an expert and independent opinion. Over 8.5 years HIF has provided investors with a net annualised return of 6.29% whilst 1.55% has been the annualised RBA Cash Rate. The Fund's returns have also exceeded the Solactive Hybrid Benchmark by 1.56% per annum after fees.

The Hybrid Income Fund continues to be managed by Nicholas Chaplin, who has managed the fund using the same investment guidelines since September 2015. Seed Funds Management intends to attain and grow the investment team over time with a strict focus continuing within Hybrid Tier 1, Subordinated Debt, Senior Bonds and Cash. The fund requires that all instruments be denominated in AUD, issued by Australian or NZ financials and with a high expectation of APRA regulation. HIF is a low duration fund corresponding to predominantly floating rate investment. No hedging or leverage is permitted in managing the fund.

During the month, banks continued to launch new capital transactions that attracted huge interest. Macquarie Bank's new Tier 2 subordinated notes issue saw an investor book of almost $5 billion while a similar bookbuild volume was seen for Westpac's new Tier 2 in late March. The decision by CBA to not rollover its CBAPH hybrid issue ($1.59 billion to be called on 26 April) will further exacerbate market cash levels and high-volume interest in new issues is expected to continue throughout the remainder of the first half of the calendar year.

The unit price (after the most recent distribution) on 31 March 2024 was $1.0505. The unit price is published weekly on our website here.

As at 31 March, the weighted average yield to call of the portfolio was 7.49%. 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 6.31%.

Franking credits have added an additional 0.94% 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.

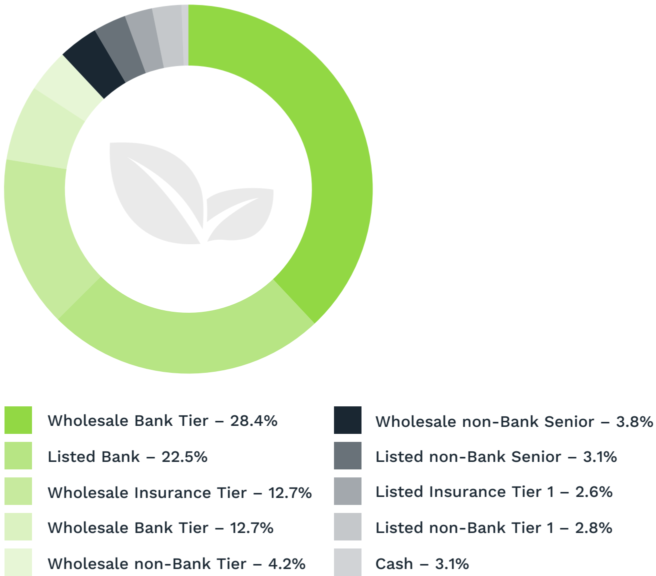
We continually measure the relative value of the prime asset classes of the fund and adjust weightings actively. As at 31 March, the fund was holding 36.2% Tier 1 instruments (including both listed and wholesale), 56.8% Tier 2 instruments, 6.4% senior bonds, and 0.6% cash.

The average credit rating of the portfolio is currently investment grade at BBB.

Portfolio Holdings

(as at 31 March 2024)

FIGURE 2.



Key Portfolio Moves in March

We increased our AYUHE holdings further as the new hybrid offers saw bidding ease in this listed senior issue from Australian Unity. We maintain our conviction of the Australian Unity credit story and as a senior issue, this bond offers excellent value. The purchases in March increased our holding yield on this issue to 6.86%.

The new ANZ hybrid (AN3PL) commenced trading during the month and has already moved in on strong demand from the issue margin of 90-Day BBSW+290 to a trading margin at the end of March of +272. It has continued to trade even tighter since the beginning of April. We await the listing of the Bendigo & Adelaide Bank and IAG hybrids during April and expect both to open well given margin tightening in recent weeks.

New purchases in Tier 2 put cash to work immediately as the Macquarie and Westpac issues came to market during the month. As noted above, the huge order books in both deals led to reduced allocations, however, we were pleased to gain good exposure to these issues which both provide yields well in excess of 6%. Both issues were sized at $1.25 billion, each enabling good liquidity for future secondary trading. Both issues have subsequently traded well, providing good initial returns. These investments were effective in reducing our cash position at the end of the month to 0.60% of the portfolio.

New Suncorp Group Tier 1 Offer

On 2 April, Suncorp announced that it was considering the potential launch of a new Capital Notes offer. The proceeds were expected to be used to fund the capital needs of regulated entities within the Suncorp Group and for general corporate and funding purposes. Suncorp noted that the offer may include a reinvestment offer for certain eligible holders of Suncorp Capital Notes 2 (listed on the ASX as SUNPG). It was noted that any offer remained subject to market conditions.

SUNPG were issued in 2017 with a total volume of $375 million. If we presume a rollover rate of 60% and a similar issue volume, then $150 million in new money would be available to investors seeking access without previously investing in SUNPG. With the Suncorp Bank now having been approved to merge with ANZ, there may well be less volume needed within the Group for Additional Tier 1 capital meaning that a materially smaller new money volume than $150 million may well be on offer. This could lead Suncorp to test a comparatively tight margin in the bookbuild, although it must be considered that the Group becomes an insurance credit during the life of this new issue. Consequently, the offer margin may need to start wider than the recent IAG offer (BBSW+3.20%) given the difference in Suncorp Group's main insurance entity rating (AAI) of AA- and IAG, which was recently upgraded to AA by Standard & Poor's and is a slightly larger insurer by Gross Written Premium.

Having said that, the IAG and recent BEN hybrid issues (both issued at BBSW+320) have both traded inside +300 bps now meaning that a new SUN (insurance only Group offer) could be offered initially at the +320 bps mark. The offer is due to be completed by the 17 June Optional Call Date.

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

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