

### Awards & Credentials

The Daintree Core Income Trust has recently been awarded a Recommended rating by Zenith. Daintree Capital is also a signatory to the United Nations Principles for Responsible Investment.



Signatory of:



### Fund Description

The Daintree Core Income Trust (the Fund) is an absolute return, cash plus, investment grade bond strategy. The Fund is not constrained by any traditional fixed income index, which provides us the flexibility to seek out the best risk adjusted returns available across regions, sectors and securities.

### Fund Objective

The aim of the Fund is to provide a steady stream of income and capital stability over the medium term by investing in a diversified portfolio of fixed income securities and cash. The Fund seeks to produce a return (net of fees) that exceeds the RBA Cash Rate by 1.50-2.00% p.a. over a rolling three-year period.

### Quarterly Highlights

- Performance has been strong, with tighter credit spreads the main driver over both the month and the quarter.
- Our decision to reduce the core duration position across our funds has proven to be sensible, with bond yields rising over the quarter. We expect this to continue.

### Key Statistics

Modified Duration (Yrs)	0.47
Spread Duration (Yrs)	3.99
Portfolio Yield (%)	2.21
Average Credit Quality	A
Portfolio ESG score (MSCI)	A

Note: Portfolio yield is the expected return over the next year, assuming no changes to either portfolio composition or market yields. The Portfolio ESG score is the weighted average portfolio ESG rating based on Daintree Capital's application of MSCI data

### Fund facts

Trust name	Daintree Core Income Trust
Funds under management	AUD353m
Responsible Entity	Perennial Investment Management Ltd
Portfolio managers	Mark Mitchell & Justin Tyler
Inception date	5 June 2017
APIR code	WPC1963AU
Management costs	0.50% pa
Buy/sell spread	+0.05% / -0.05%
Entry and exit fees	None
Pricing frequency	Daily
Initial investment	\$25,000
Distribution frequency	Monthly
Currency	Australian Dollar

### Platforms

The Daintree Core Income Trust is available on the following platforms:

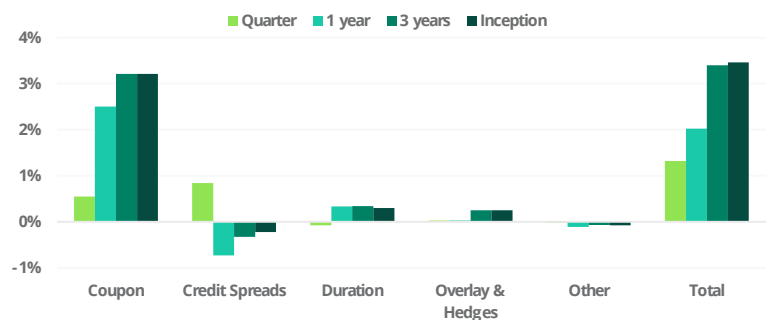
- Asgard
- BT Panorama
- HUB24
- Macquarie Wrap
- Mason Stevens
- MLC Navigator
- MLC Wrap
- Netwealth
- Praemium
- uXchange
- Xplore Wealth

### Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	Inception (% pa)
Fund (gross)	0.19	1.32	2.00	3.40	3.45
Fund (net)	0.15	1.20	1.50	2.85	2.89
Distribution (net)	0.10	0.40	1.57	2.16	2.10
Growth (net)	0.05	0.80	-0.07	0.69	0.79
RBA Cash Rate	0.02	0.06	0.47	1.12	1.15
Excess Return	0.13	1.13	+1.03	+1.73	+1.74

Note: Performance inception is 1 July 2017. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator of future performance.

### Performance Contribution (Pre Fees)

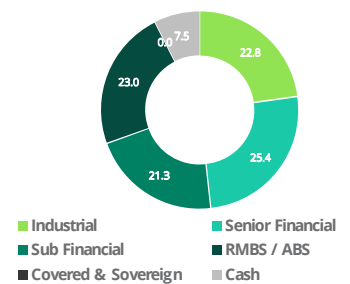


Note: Overlay strategies use derivatives to ensure that the fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

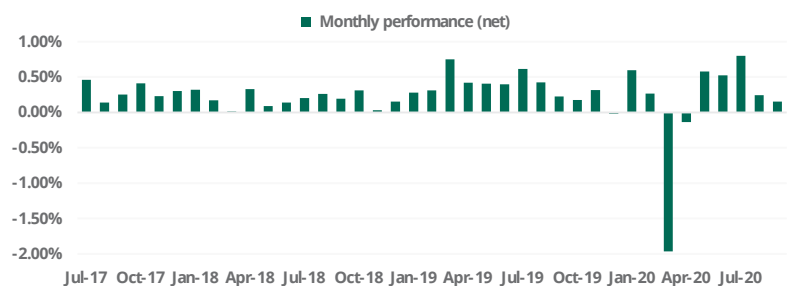
### Rating Exposure (%)



### Sector Exposure (%)

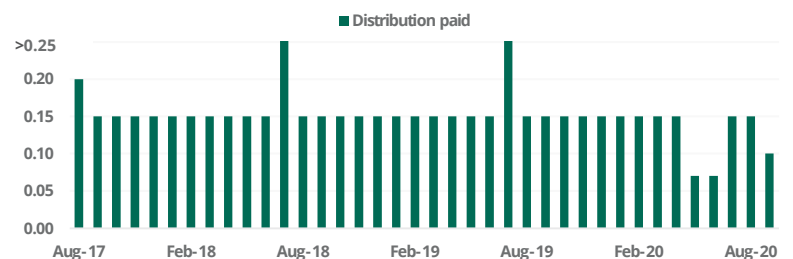


### Monthly Performance



### Cash Income

The Fund distributed 0.10 cents per unit in September. We envisage stable distributions at this level going forward.



## Fund Review

Despite the equity rally pausing in the month of September, the third quarter saw notable performance from risk assets. Divergence between US technology stocks and the wider US equity market remained a theme, but encouragingly the breadth of equity market performance increased during the quarter across both geographies and sectors.

This 'risk-on' environment has been constructive for credit spreads, and as a result the September quarter was a strong one for performance across the Daintree funds. We have remained cautious with respect to our risk-taking, however, as markets remain jittery going into the US election next month. We have increased our allocation to residential mortgage-backed securities slightly, however our interest remains confined to higher-rated tranches with significant structural protections. In our overlay, we have reduced our risk-taking a little in the latter part of the quarter as market volatility increases. We think there is a high likelihood that volatility remains elevated in the coming weeks.

We continue to see interest rate markets as offering a poor risk-reward trade-off, a view that seems to have been borne out by bond yields in the US moving steadily higher throughout the quarter, and sharply higher in the initial days of October. As we discuss below, we see this as markets pricing a Democratic clean sweep in the coming US elections, which we would see as being a particularly poor outcome for government bond markets.

## Outlook

The strong performance seen across the risk-asset complex in recent months, including the contraction in credit spreads, has defied the fundamental weakness seen in most economies as the recovery from the pandemic continues. Of course, recent growth out-turns have been strong, but this is mostly due to base effects. Output gaps remain wide in most developed markets. As such the momentum-driven upswing came to an inevitable pause in September, amid concerns the US recovery is losing momentum. Fiscal support is fading and there is a low likelihood of further measures prior to the US Presidential election next month. The election itself is another key source of risk for markets and as it comes into focus, market participants are reducing their risk-taking given the potential for a contested outcome. Certainly, this has already been priced in various options markets.

We also think the recent move to higher US treasury yields is driven by the November election. Beyond worries about a contested outcome and associated market uncertainty, it seems some markets are now also considering the possibility of the Democrats winning not only the Presidency, but also both houses a 'clean sweep'. According to Predictit.org, this outcome has become 25% more likely in recent days. Such an outcome would of course have far-reaching implications. One important element would be massive fiscal stimulus which would likely lead to a meaningful growth impulse, a meaningful increase in government debt from already elevated levels, and a meaningful possibility that inflation returns more quickly than anticipated. It is

hard to imagine a more negative backdrop for government bond markets, and conversely, we would expect such an outcome to lead to a further boost to equities and credit.

Closer to home, fiscal policy has also taken over the Australian headlines and we believe this will remain the case for the foreseeable future. Personal tax cuts and a business-friendly suite of policies were widely expected and delivered in the Commonwealth budget, but the measures will, at face value, be insufficient to offset the stimulus delivered by the Jobkeeper and Jobseeker packages when these roll off. This is Australia's version of a 'fiscal cliff' and it bears watching, because the economy is still too fragile, in our view, to successfully absorb a tightening in fiscal policy. Of course, expectations as to the multiplier effects of the suite of policies announced remain key, and it could well be that the stimulus that has been delivered accelerates activity sufficiently to cushion the inevitable slowing in growth as current emergency stimulus measures are wound down.

The RBA stands ready to deliver further easing if it is required in this circumstance; indeed, expectations in financial markets around the delivery of such easing in November are already elevated. A further cut in the cash rate to 0.10% would not be sufficient to stimulate much in the way of extra activity by itself, but the potential for this easing to be delivered along with greater volumes of asset purchases, potentially at longer tenors and potentially in state government as well as Commonwealth debt markets, would put further downward pressure on various fixed-term rates in the economy (e.g. fixed mortgage rates) and, importantly, the Australian dollar. Of course, in a world where most developed nations are following similar policies it remains to be seen whether such an impact on the Australian dollar lasts long; our feeling is that it would not. Whilst such a policy would allow a further fiscal expansion (because government debt servicing costs would fall), the US election remains a wildcard. Australian longer tenor bond yields would certainly move higher in sympathy with bond yields in the US and other markets if a democratic clean sweep is delivered. The AUD would likely appreciate as well, certainly versus the US dollar and potentially on a broader trade-weighted basis if commodity prices were to rise. In this sense, we feel that for the moment at least, it is difficult to have confidence around the near-term impacts of the policies delivered thus far by both the Federal government and the RBA, let alone the potential impacts of policies that remain under consideration. Circumstances in the US may work in the opposite direction, frustrating the efforts of local policy makers.

In this environment we believe it makes sense to be prudent in risk-taking. As ever the preservation of capital remains paramount, and we will be keeping a watchful eye on both credit spreads and potential hedges in what will likely be turbulent times ahead.