

Awards & Credentials

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



Fund Description

The Daintree Core Income Trust (the Fund) is an absolute return, cash plus 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

- Credit continues to perform well amid a 'risk-on' backdrop
- As a result, performance for the quarter was driven by coupon income, credit spread contraction and a small contribution from overlay strategies
- We believe the risk-on backdrop will persist for now, but are becoming more cautious looking into 2022

Key Statistics

Modified Duration (Yrs)	0.58
Spread Duration (Yrs)	4.22
Portfolio Yield (%)	1.83
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. Average credit quality excludes overlay positions. Portfolio yield and spread duration reflect the net credit default swap exposures in the portfolio. 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	AUD498m
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:

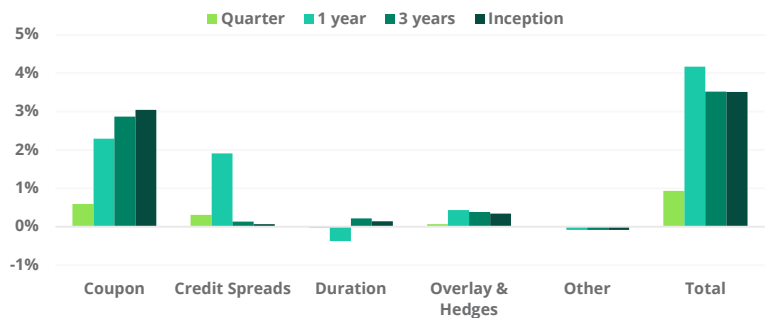
- AMP North
- Asgard
- BT Panorama
- HUB24
- Macquarie Wrap
- Mason Stevens
- MLC Navigator
- MLC Wrap
- Netwealth
- Praemium
- uXchange
- Xplore Wealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	Inception (% pa)
Fund (gross)	0.22	0.93	4.17	3.52	3.51
Fund (net)	0.17	0.80	3.67	2.99	2.96
Distribution (net)	0.71	0.24	1.25	1.99	1.92
Growth (net)	-0.54	0.56	2.42	1.00	1.04
RBA Cash Rate	0.01	0.02	0.15	0.77	0.95
Excess Return	0.17	0.78	3.52	2.22	2.01

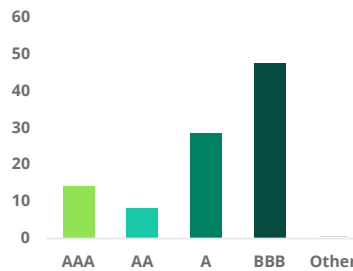
Note: Performance inception is 1 July 2017. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre Fees)

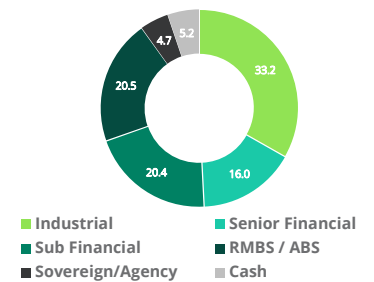


Note: Overlay strategies use derivatives to ensure that the fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

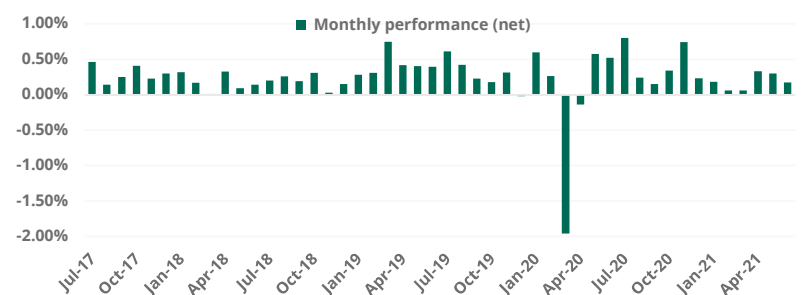
Rating Exposure (%)



Sector Exposure (%)

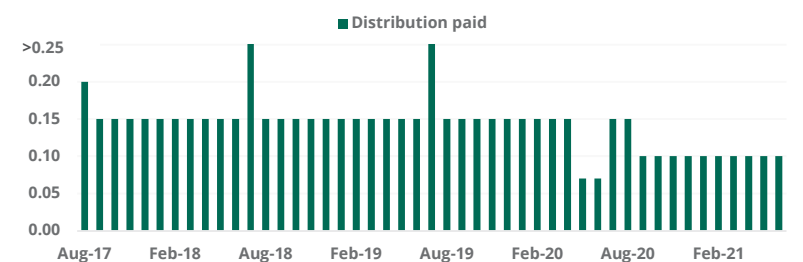


Monthly Performance



Cash Income

The Fund distributed 0.10 cents per unit in June.



Fund Review

The June quarter was dominated by Fed rhetoric, and the same may be the case this quarter given the proximity of the Jackson Hole Symposium. Despite the volatility immediately after the announcement, however, the backdrop for markets has been and remains a 'risk-on' one. Credit assets have done well against this backdrop, and as a result the fund saw positive performance for both the month and the quarter. Coupon income and credit spread contraction were the main sources of these returns. Overlay performance was slightly down on the month but positive for the quarter – duration and yield curve positioning detracted value here, but this effect was more than offset by positioning in other strategies.

Outlook

The question we are once again asking ourselves is one that is always in the back of our minds, but one which periodically comes into the foreground of our thinking: "What are the catalysts that might potentially disrupt the rally in risk assets?"

In early 2020 we were asking ourselves the same question, and the exogenous shock of the coronavirus provided us with an emphatic answer in short order. The full impact of exogenous shocks such as that can only be known in hindsight of course. It is more useful to think carefully about forecastable events. Of the disruptors that we might more readily forecast right now, we mention two: The first one relates to the potential action of central banks, and the second to the deceleration in Chinese credit creation.

A sharp move lower in bond yields accompanied by a flattening of the yield curve post the June US FOMC meeting highlighted a clear change in the bond market's view of the Fed reaction function. The US central bank is now less likely than before to let the US economy run hot, less likely than before to tolerate inflation running above target for too long, and more likely than before to tighten monetary policy earlier. Inflationary fears have been significantly downgraded (although in the longer-term we would say that they are still valid) and the sharp increase in real yields seen in February has largely been unwound. The market now casts doubt on the Federal Reserve's willingness to let the US economy grow above potential for a meaningful length of time.

This puts markets back into a "search for yield and pay up for capital growth" paradigm that has been familiar territory for some time now. Markets are perhaps right to pay up for capital growth because genuine growth companies may be hard to come by. In both Australia and the US, recent data have once again shown the unwillingness of businesses to ramp up supply to meet demand, because businesses do not believe that demand to be anything other than transient. As RBA Governor Philip Lowe noted in a speech on July 8: "...most firms retain their strong focus on cost control, with many preferring to wait things out until the borders open, and ration output in the meantime." A respondent to the most recent US ISM Services survey expressed similar sentiments: "Some locations cannot open for business or (have) limited hours, as we cannot staff the restaurant to meet consumer demand." In the US, the number of people in work is still 7.5m below the February 2020 peak. Workers are therefore available. They just need to be paid enough. That businesses will not do this speaks to a lack of confidence – a lack of confidence the demand pulse will have any longevity and a lack of confidence/ability to make money with a higher cost structure. It may be that the zombie business problem that has become pervasive in the current low-rate

environment is at last in the process of being solved. Time will tell, but for us the main takeaway is that central banks will need to maintain a nuanced mix of policy support combined with gradualist hawkish rhetoric for some considerable time into the future. Arguably, the initial introduction of hawkishness is the most difficult step in the process. The US Federal Reserve has perhaps erred on the side of hawkishness too early at its most recent June meeting. Whatever view one holds, the June 2021 FOMC and the market reaction to it has highlighted the inconsistency of central banks making longer-term commitments, knowing all the while that surprising short-term data or market pressure might throw such commitments into disarray and damage the credibility of the institution in the process.

One potential reason for central banks in the US and elsewhere to remain dovish even in the face of an accelerating economy is the new delta variant of Covid-19. While we feel that the global community has better learnt to live with Covid given a more satisfactory vaccine rollout than that seen here in Australia, we feel the jury is still out as to whether global activity levels can continue to accelerate in the face of this new variant. The controversy in the UK around the full re-opening of northern England (including London) on July 19 illustrates the issues everyone will have to deal with – the trade-off between increased activity and increased infection that may see consumer and business confidence fall, particularly if we also see mutation that reduces the effectiveness of vaccines.

In Australia, the policy of elimination of Covid-19 combined with a slow vaccine rollout means excessive hawkishness from the RBA is unlikely to be a problem. The Sydney lockdown may not be the last between now and the projected vaccination of around 80% of the population early next year. Yield curve control has been curtailed, but nonetheless it will not surprise us if the RBA remains on hold into 2024. The earlier hikes some commentators are predicting still strike us as ambitious given demand in Australia remains fragile. Consumers remain more likely to save than spend any fiscal largesse that follows the Federal election in 2022, meaning businesses will remain reticent to pass on the sort of wage increases that the RBA wants to see before tightening policy. Meanwhile, Australia remains heavily exposed to the other main disruptive catalyst that we have our eyes on, being the deceleration of credit growth in China (and elsewhere too, including a potential US 'fiscal cliff' should the Democratic party lose control of either or both the US House and Senate in 2022). China's post-coronavirus economy has owed more to US fiscal stimulus than to Chinese domestic demand. Although China's GDP is still only 75% of that of the US, its investment value is around 50% larger. Putting the Biden \$1.7tn infrastructure package into context, this entire 10-yr commitment is less than China's 2020 infrastructure spend. So, even as the global economy continues to perform well, trends in China's credit impulse bear close attention. If the growth pulse in the US and elsewhere starts to slow as the US fiscal impulse fades, then we would expect a flow on effect to other nations.

We have downgraded our outlook for the world economy somewhat for 2022, in recognition of the potentially disruptive catalysts mentioned here. Markets have already priced in significant ongoing economic performance. We feel that elevated markets will become increasingly vulnerable to any poorer data unless the US Federal Reserve was to revert course to a more overtly dovish message.

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