

### 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.

### Monthly Highlights

- > Coupon income and overlay positioning more than offset the negative impact of wider credit spreads and higher bond yields
- > The RMBS and ABS sectors outperformed the rest of the credit universe, which also aided performance

### Key Statistics

Modified Duration (Yrs)	0.53
Spread Duration (Yrs)	3.42
Portfolio Yield (%)	1.70
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	AUD631m
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
Minimum initial investment	\$25,000
Distribution frequency	Monthly
Currency	Australian Dollar

### Platforms

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

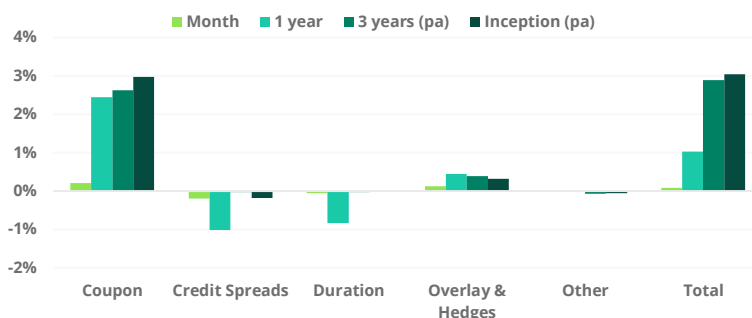
- > AMP North
- > Asgard
- > BT Panorama
- > HUB24
- > Macquarie Wrap
- > Mason Stevens
- > MLC Navigator
- > MLC Wrap
- > Netwealth
- > Praemium
- > uXchange
- > Xplore Wealth

### Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	Inception (% pa)
Fund (gross)	0.08	-0.14	1.03	2.89	3.04
Fund (net)	0.04	0.02	0.53	2.37	2.49
Distribution (net)	0.10	0.29	1.75	1.74	1.96
Growth (net)	-0.06	-0.27	-1.22	0.63	0.53
RBA Cash Rate	0.01	0.03	0.10	0.49	0.84
Excess Return	0.03	-0.01	0.43	1.88	1.65

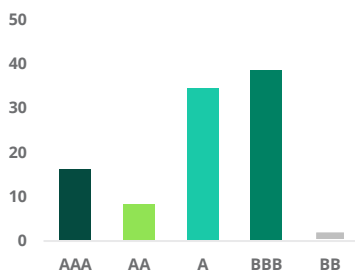
Note: Performance inception is 1 July 2017. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

### Performance Contribution (Pre Fees)

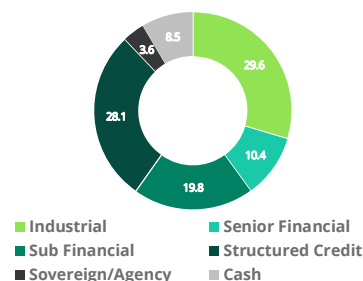


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

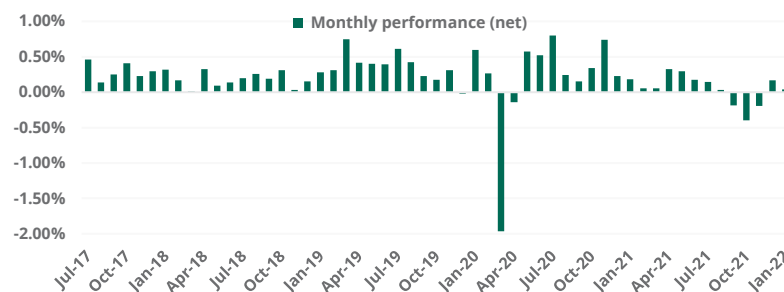
### Rating Exposure (%)



### Sector Exposure (%)

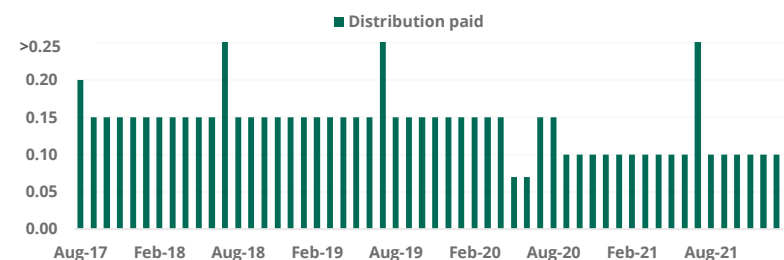


### Monthly Performance



### Cash Income

The Fund distributed 0.10 cents per unit in January.



## Fund Review

The Core Income Fund returned 0.04% for the month bringing the rolling three-year performance to 2.37% net of fees. The fund's performance was negatively impacted by wider credit spreads and higher bond yields, however that was offset by coupon income and overlay trades to produce a slightly positive return for the month. Credit spreads were wider across most sectors, however RMBS/ABS held in relatively well. The fund continues to have a very modest neutral interest rate duration positioning of 0.30 years.

New issuance in Australia remained very modest, however the pipeline is ramping up with multiple deals announced including Liberty Auto, AFG, Metro ABS, Mortgage House and Bank of Nova Scotia.

## Outlook

January 2022 was of course the month that Jerome Powell finally confirmed, as expected, that the FOMC would tighten US monetary policy. History may show that although a change in stance was expected, January was the month that markets started to take the Fed seriously. Bond yields rocketed higher, led by the short end of the US yield curve as the market once again reassessed the number of rate hikes that the US Federal Reserve will need to administer before this tightening cycle concludes. This bought more pain for those who continue to hold standard 60/40 asset allocations in the belief that a 40% allocation to long duration sovereign bonds will act as a stabiliser to a 60% growth asset allocation. Equities and bond duration both suffered in tandem, and we believe such behaviour will remain a feature in markets for the foreseeable future.

For now, though, it is interesting that 'buy the dip' behaviour is still evident in equity markets. Sentiment is weaker, but the capitulation that tends to end equity market downturns is absent. The Ukrainian situation seems not to be on the radar screen of equity investors. Bond markets have calmed down in the latter part of the month as well.

Commodities are clearly reacting to the geopolitical backdrop though, particularly in oil where the increase in price over the last 12 months is in fact the biggest 12-month percentage increase in the last 20 years. This is a tax on consumption that should, all else being equal, reduce the need for interest rate hikes.

Of course, however, all else is not equal. Assuming the geopolitical situation does not worsen, the status quo is that: 1) Consumers have saved a lot of income because of the various lockdowns experienced over the last two years; and 2) Supply chains remain under pressure, even before any potential further demand windfall created by these savings. We do not put as much credence in the potential for a large pickup in demand as other market participants and commentators, but we concede upside risks to US growth and inflation may emanate from this source. The bond market seems not to agree, with break-even inflation remaining under downward pressure. Nonetheless, if this upside risk scenario is realised, inflation will not be bought under control in the US unless financial conditions are made to tighten significantly.

Much is therefore riding on the expected fall in the US fiscal impulse that supports our core view that the US economy will slow this year. Bond market pricing supports this view, in that interest rate hikes as currently priced are (according to break-even inflation rates) expected to bring inflation sustainably lower. The US data may be rolling over even now in response to the slowing fiscal impulse: retail sales, industrial production, empire manufacturing and Richmond Fed manufacturing were all weaker in January. Still, we remain wary of upside risks that would send bond yields even higher, led by real yields.

What is interesting is that although risk assets are clearly at risk if the geopolitical backdrop worsens, they are also at risk if it does not. Upside risks to growth increase the urgency that financial conditions tighten to rein in inflation. Slower data point to a potential stagflationary scenario. 2022 is certainly shaping up as a challenging year for markets.

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