DAINTREE CORE INCOME TRUST

MONTHLY FACTSHEET: 30 June 2022

Awards & Credentials

The Daintree Core Income Trust has been awarded a Recommended rating by both Lonsec and Zenith and has a top quartile ranking in the Evergreen Responsible Investment Grading Index (ERIG).
Daintree Capital is also a signatory to the United Nations Principles for Responsible Investment.

Zenith RECOMMENDED · Recommended Lonsec Research · 1ST ERIG INDEX · Signatory of: PRI 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

- Fund performance was impacted by wider credit spreads, which overwhelmed coupon income and a positive contribution from overlay strategies
- The fund remains defensively positioned amid volatile market conditions

Key Statistics

Modified Duration (Yrs)	0.00
Spread Duration (Yrs)	1.98
Portfolio Yield (%)	3.08
Average Credit Quality	A
Portfolio ESG score (MSCI)	AA

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	AUD634m
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:

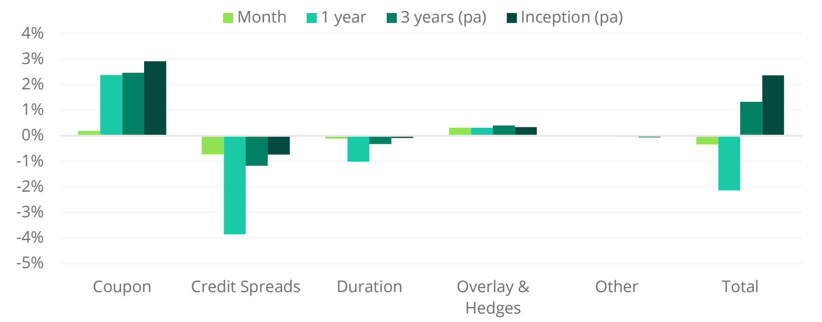
- AMP North
- Asgard
- BT Panorama
- HUB24
- Macquarie Wrap
- Mason Stevens
- MLC Navigator
- MLC Wrap
- Netwealth
- Praemium
- uXchange
- Xplore Wealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	5Years (% pa)	Inception (% pa)
Fund (gross)	-0.34	-0.76	-2.14	1.33	2.36	2.36
Fund (net)	-0.38	-0.88	-2.64	0.83	1.82	1.82
Distribution (net)	0.05	0.15	1.52	1.57	1.85	1.85
Growth (net)	-0.43	-1.03	-4.16	-0.74	-0.03	-0.03
RBA Cash Rate	0.06	0.10	0.17	0.33	0.80	0.80
Excess Return	-0.44	-0.98	-2.81	0.50	1.02	1.02

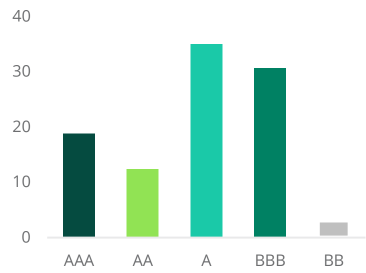
Note: Performance inception is 1 July 2017. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre Fees)

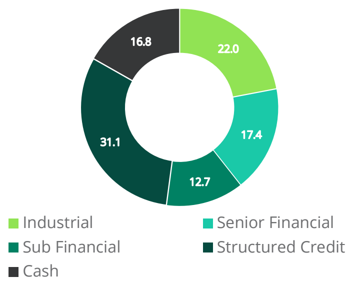


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

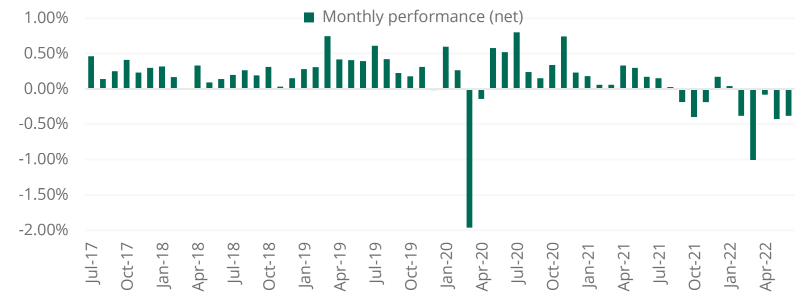
Rating Exposure (%)



Sector Exposure (%)

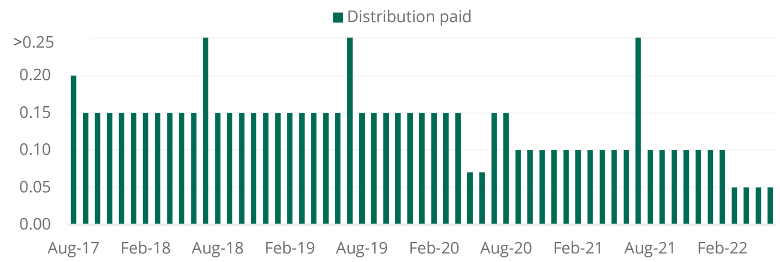


Monthly Performance



Cash Income

The Fund distributed 0.05 cents per unit in June.



Proudly supporting: ONE TREE PLANTED

Fund Review

The Core Income Fund returned -0.38% for the month net of fees. The fund's performance was negatively impacted by wider credit spreads which more than offset coupon income and a substantial contribution from our overlay and hedging strategies. All sectors widened on the month, but the corporate sector was the largest detractor. On average Australian and US credit spreads were approximately twenty-three basis points wider on the month, but both markets substantially outperformed European spreads which were out approximately fifty-five basis points. The core duration position in the fund remained flat as at month end.

Given our defensive positioning and continuing bearish outlook for spreads, we largely avoided new issues during the month. Having said that supply was limited locally which helped spread performance relative to offshore markets. We did, however, start to spend some of our excess cash on short-dated corporate and financial assets.

Outlook

The near-term outlook remains considerably uncertain, with intra-week volatility being exacerbated by lower trading volumes brought on by the northern hemisphere summer.

Central banks are quickly gaining ground in their bid to collar inflation, but their actions still feel more about catching pace with prices rather than having any real influence on their moderation. The more pressing issue, voiced recently by Federal Reserve Chairman Jerome Powell, is ensuring that inflation expectations remain anchored. He went so far as to say that "The Fed would restore price stability even at the risk of raising interest rates too high". Breakeven rates and inflation forwards peaked in late April and have subsequently fallen by an average of half a percentage point, suggesting that the financial markets believe the Fed can return inflation to desired levels. Similar trends are evident in Europe, the UK and Australia, with local breakeven rates back to levels prior to Russia's invasion of Ukraine.

While anchored inflation expectations would help to keep Chair Powell from following through on his "too high" threat, we believe a deteriorating growth outlook is also influencing their recent march lower. Economic data has been mixed, particularly in the United States, with several indicators printing below consensus estimates in recent months. However, monetary policy transmission channels are typically lagged by several months, thus it is difficult to attribute this weakness to central bank actions alone. Another possible sign of economic fragility is weakness in commodities, including base metals such as copper. Long watched as a barometer of economic health, the price of copper has fallen by more than 15% in June alone.

Despite these signals of caution, demand for labour remains strong. Business sentiment has proven resilient when compared with consumer sentiment, leading to record low unemployment rates across the developed world. Despite central banks' inflation problem, we believe the employment market will be of as great an interest to policymakers as midterm elections loom for the United States in November. Surging prices for essentials such as gasoline and food, coupled with tenuous housing markets stalled by sharply rising mortgage rates make for a politically volatile combination.

The lure of strong nominal yields in the United States has seen the US dollar appreciate materially this year. Against an uncertain geopolitical backdrop, this poses risks to emerging markets that are already struggling to secure stable food and energy supplies as the sanctions noose is tightened on Russia. However, despite sustained global pressure, Russia's currency has been one of the strongest in the world this year after forcing certain customers to purchase their energy products with rubles. Meanwhile, the Bank of Japan's steadfast maintenance of yield curve control has driven sustained weakness in the yen, a currency that has traditionally acted as a safe-haven of sorts in risk-off environments.

Concerns are growing about the durability of the current expansion, which we believe will contribute to ongoing credit market volatility. Local estimates for the terminal cash rate are too high, in our view. We are sceptical that the Australian economy could sustain a restrictive 3%+ cash rate when most market forecasts of the neutral rate are currently around 2.5%. We expect AUD cash rates to approach neutral by the end of 2022 before becoming more sensitive to incoming data. Credit spreads have been repricing since late 2021, reflecting a very tight starting point and macro/geopolitical concerns. Corporate balance sheets are strong, with plentiful liquidity and sensible term structures which will limit the widening impulse of the current cycle. Nevertheless, we believe it is premature to consider removing hedges or adding spread duration for now.