DAINTREE CORE INCOME TRUST

MONTHLY FACTSHEET: 31 August 2022

Daintree CAPITAL

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 QUARTILE 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 supported by narrower credit spreads and coupon income, with a partial offset coming from duration positioning
- The fund remains defensively positioned amid volatile market conditions, although we have started to lengthen duration exposure and increase exposure to short-dated assets

Key Statistics

Modified Duration (Yrs)	0.23
Spread Duration (Yrs)	2.07
Portfolio Yield (%)	4.11
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	AUD624m
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:

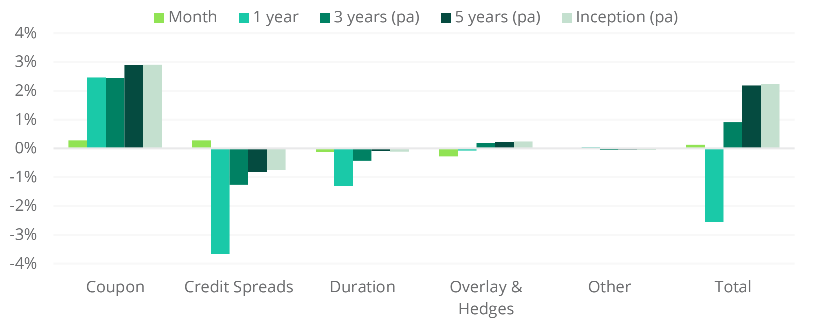
- AMP North
- Asgard
- BT Panorama
- HUB24
- Macquarie Wrap
- Mason Stevens
- MLC Navigator
- MLC Wrap
- Netwealth
- Praemium
- uXchange
- Xplore Wealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Inception (% pa)
Fund (gross)	0.13	-0.49	-2.55	0.90	2.18	2.25
Fund (net)	0.08	-0.62	-3.04	0.40	1.65	1.71
Distribution (net)	0.16	3.18	3.79	2.43	2.44	2.40
Growth (net)	-0.07	-3.80	-6.84	-2.02	-0.79	-0.69
RBA Cash Rate	0.15	0.32	0.42	0.36	0.80	0.82
Excess Return	-0.07	-0.94	-3.46	0.04	0.85	0.89

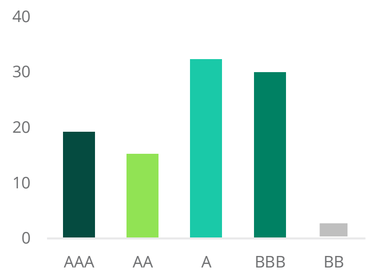
Note: Performance inception is 1 July 2017. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre Fees)

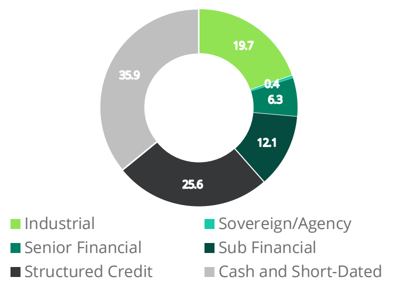


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

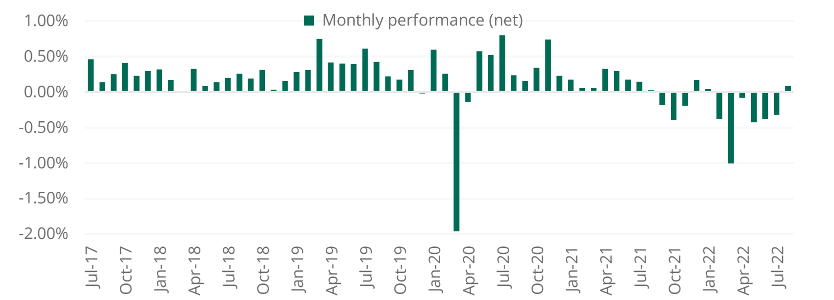
Rating Exposure (%)



Sector Exposure (%)

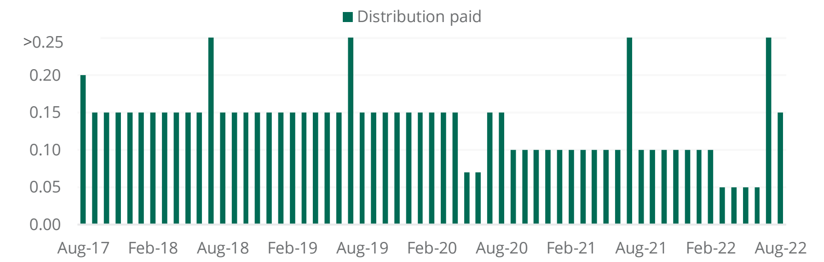


Monthly Performance



Cash Income

The Fund distributed 2.9885 cents per unit in August.



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Fund Review

The Core Income Fund returned 0.08% for the month net of fees. The fund's performance was positively impact by coupon income and a modest rally in credit spreads. However, these were offset by a negative contribution from our duration position which was impacted by a meaningful rise in interest rates during the month. A few sectors were positive contributors during the month including Industrials, bank Tier 2 and RMBS. On average Australian and US credit spreads were approximately four basis points tighter on the month, both significantly outperforming EUR spreads which were fifteen basis points wider. Our interest rate position at month end continued to be modest at 0.25 years.

Given our defensive positioning and continuing modestly bearish outlook for spreads over the medium term, we largely avoided new issues during the month. We did however participate in some of the new RMBS deals including Triton and Think Tank, but otherwise we continue to carry larger than normal cash and short-term securities weightings in the fund.

Outlook

A rally across the risk asset complex in early August was scuppered by Federal Reserve chairman Jerome Powell at the annual Jackson Hole Symposium. A nine-minute speech was all that was required to leave the markets in absolutely no doubt as to the Fed's intentions. Following the speech, yield curves have remained inverted as the US 2-year yield reached cycle highs above 3.5%. Estimates of terminal rates also rose by 30-50 basis points and are closing in on four per cent. Concurrently, market expectations for a subsequent "pivot" were wound back, as Powell and other Fed governors made clear that they would move policy into appropriately restrictive territory and then wait for clear signs of moderation.

Financial conditions began to tighten again toward the end of the month but remain far from onerous in the context of the inflation problem the world faces. Evidence continues to mount that supply chain issues are easing, but the extent of the disruption means the benefits will flow through gradually over time. More pressingly, severe shortages of energy and illiquid markets will keep headline inflation volatile in coming months. Indeed, some analysts in the UK believe headline inflation could reach 20% this year as retail energy and gas prices surge. In our view, illiquid markets are a symptom of underlying caution, which has contributed to oil prices, equity markets and credit spreads all exhibiting volatility at times without any obvious catalyst.

Europe is particularly exposed to energy shortages this winter, contributing to very poor consumer confidence across the continent. With the price of gas at completely unsustainable levels, intervention in some form is not just inevitable but necessary to avoid a disastrous scenario that could include a recession. Meanwhile, the ECB is poised to increase its policy rate by up to 75bp in September. Expectations are that the policy rate could reach 2% by the end of the year. While modest compared to most other economies, a rate even this high for Europe could become increasingly challenging to justify to a populace struggling with extensive cost-of-living concerns.

Thankfully, these same pressures are not as acute locally, but Australia is not immune to the pervasive nature of inflation. Despite record resource and agricultural exports, a weaker Australian dollar will put upward pressure on imported goods prices, while severe labour shortages and immigration delays are impacting the cost of services. In addition, the residential property market is showing clear signs of moderation across most capital cities and is contributing to weak consumer confidence. In our view, after recent missteps the RBA will not accept being seen to be falling behind the curve in dealing with inflation, and thus the cash rate could rise past the estimated neutral rate of 2.5% and enter restrictive territory by the end of this year.

We remain circumspect in our outlook for credit spreads. We expect the widening trend to continue both locally and offshore. While credit spreads participated in the risk rally early in August, there was a lack of conviction on low trading volumes that quickly reversed following Jackson Hole. Credit denominated in EUR was the weakest performer as the multitude of issues plaguing the continent took their toll. The risk of significant slowdown or recession is less evident in other developed markets, making some of the movements in parts of the credit complex seem disproportionate to the risks. However, it has been a long time since borrowing costs have been this high, and with no relief in sight we retain a strong bias toward high quality and shorter tenor within Daintree portfolios.

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