Daintree CAPITAL

DAINTREE CORE INCOME TRUST

MONTHLY FACTSHEET: 30 November 2022

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.

Zenith RECOMMENDED | Recommended Lonsec Research | 1ST QUARTILE ERIG INDEX | Signatory of: PRI Principles for Responsible Investment

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

- Narrower credit spreads supported performance during the month
- Our positioning remains defensive, and we envisage further challenging market conditions in the coming months

Key Statistics

Modified Duration (Yrs)	-0.05
Spread Duration (Yrs)	2.20
Yield to Maturity (%)	4.69
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	AUD607m
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:

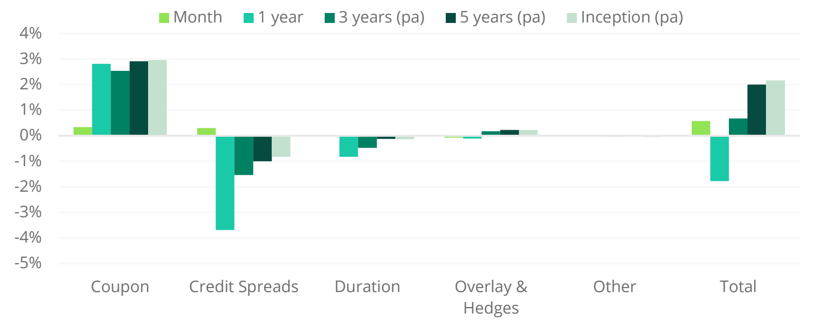
- AMP North
- Asgard
- BT Panorama
- Colonial FirstWrap
- HUB24
- Macquarie Wrap
- Mason Stevens
- MLC Navigator
- MLC Wrap
- Netwealth
- Praemium
- uXchange
- Xplore Wealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Inception (% pa)
Fund (gross)	0.58	0.15	-1.78	0.67	2.00	2.17
Fund (net)	0.54	0.02	-2.27	0.17	1.47	1.63
Distribution (net)	0.16	0.47	3.99	2.43	2.44	2.38
Growth (net)	0.38	-0.45	-6.26	-2.26	-0.97	-0.74
RBA Cash Rate	0.23	0.63	1.03	0.50	0.85	0.90
Excess Return	0.30	-0.61	-3.30	-0.33	0.62	0.73

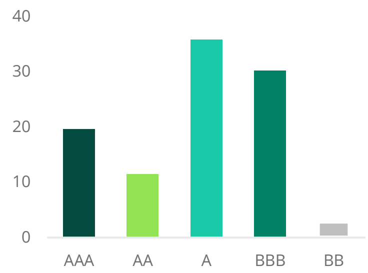
Note: Performance inception is 1 July 2017. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre Fees)

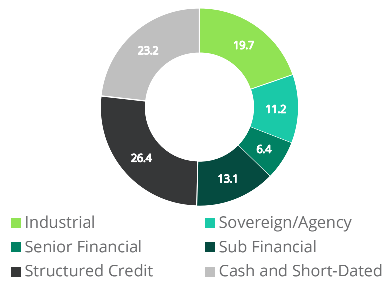


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

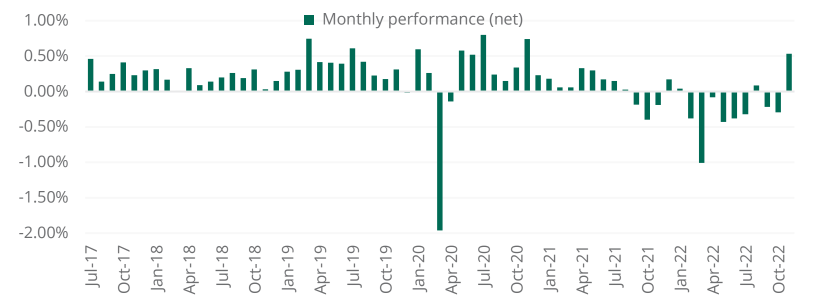
Rating Exposure (%)



Sector Exposure (%)

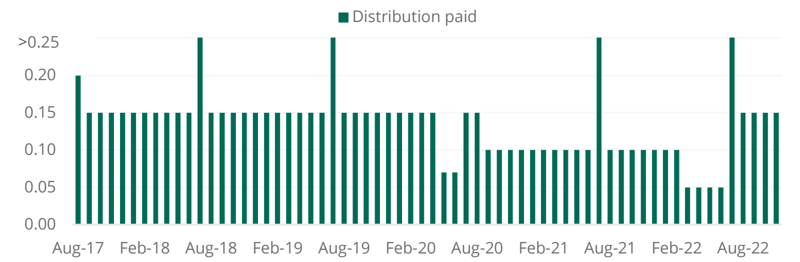


Monthly Performance



Cash Income

The Fund distributed 0.15 cents per unit in November.



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Fund Review

The Core Income Trust returned 0.54% for the month net of fees. The fund's performance was positively impacted by both coupon income and narrower credit spreads. We also have hedges in place that underperformed given the relatively 'risk-on' tone seen during the month.

The Australian market underperformed markets offshore in November, but the overall tone was positive. More constructive views of the trajectory for the global economy and expectations of less central bank tightening going forward combined with expectations for a reopening of the Chinese economy to support narrower credit spreads. Major bank paper was a stronger performer than other domestic sectors, while globally the strength in credit markets was led by lowerbeta sectors.

Our interest rate position at month end was zero, and our view remains that inflation momentum will be more difficult to lower than what the markets currently assume. This leaves us unconvinced that the recent strength in government bond markets can be sustained.

Given our defensive positioning and continuing modestly bearish outlook for spreads over the medium term, we largely avoided new issues during the month. We continue to carry larger than normal cash and short-term securities weightings in the fund.

Outlook

Last month saw a continuation of volatile trading conditions. Investors were sensitive to news flow, which when combined with unpredictable liquidity led to sharp intra-month movements in equities, interest rates and commodities. Events influencing this thematic included speculation of easing lockdown restrictions in China (which included rarely seen street protests) and inflation readings that surprised on the downside (prompting Fed speakers to take a hawkish stance against bullish adjustments to expectations). Despite ongoing shortages and disruptions, oil prices ended the month lower as growing demand uncertainty outweighed supply issues.

Real yields remain elevated and are the strongest indication that financial conditions remain tight. Simultaneously, yield curves inverted further during the month, signalling that growth concerns are growing for 2023. This set up leaves us with little conviction that the positive sentiment of recent weeks is anything other than a bear market rally, especially as it pertains to corporate earnings, which we expect to disappoint expectations and potentially go negative on a year-on-year basis. Mixed data in the form of retail sales (which remain reasonably resilient) and consumer confidence (which in some cases is at post-GFC lows) is feeding into this sanguine earnings outlook.

After a very strong year, the USD index in November had its worst month since May 2009. As speculation of pauses or pivots picked up with the latest inflation data in the US, currency investors seemingly took profits, with implications for the AUD, commodities, and emerging markets. Copper struggled as a proxy for the global growth outlook, while gold, which has been negatively correlated to the USD, outperformed as the reserve currency came off multi-year highs.

Despite broader growth concerns, credit markets performed well in November and have continued their trend of remaining relatively calm when compared to rates markets. Even as near-term earnings concerns linger, corporate fundamentals remain strong. Leverage is well contained, a distinct positive if we are on the precipice of a recession, while a shortage of labour across many sectors is quite unusual for this period of the economic cycle. We retain the stance held in our funds for much of this year – zero duration exposure, a shorter tenor and higher quality bias in the credit book, and a focus on liquidity.

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