

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

- Narrower credit spreads and overlay strategies 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)	-0.11
Spread Duration (Yrs)	2.11
Yield to Maturity (%)	4.97
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	AUD612m
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:

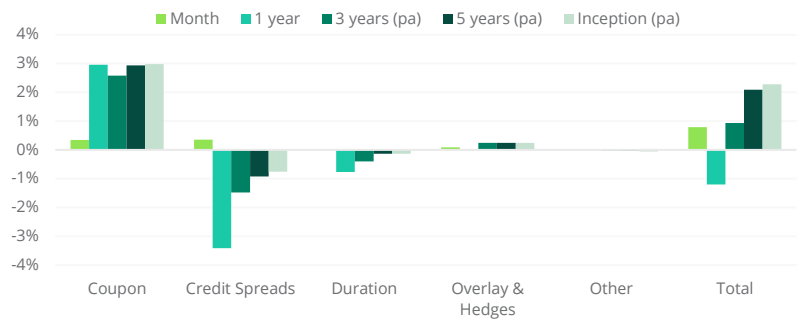
- AMP North
- Asgard
- BT Panorama
- Colonial FirstWrap
- HUB24
- Macquarie Wrap
- Mason Stevens
- MLC Navigator
- MLC Wrap
- Netwealth
- Praemium
- uXchange
- Xplore Wealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Inception (% pa)
Fund (gross)	0.79	1.12	-1.20	0.93	2.09	2.28
Fund (net)	0.75	1.00	-1.70	0.43	1.56	1.75
Distribution (net)	0.16	0.47	4.07	2.44	2.44	2.37
Growth (net)	0.59	0.52	-5.77	-2.01	-0.88	-0.62
RBA Cash Rate	0.26	0.71	1.28	0.57	0.88	0.93
Excess Return	0.49	0.29	-2.98	-0.14	0.69	0.81

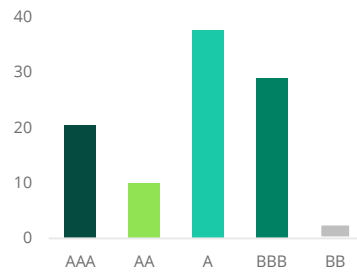
Note: Performance inception is 1 July 2017. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre Fees)

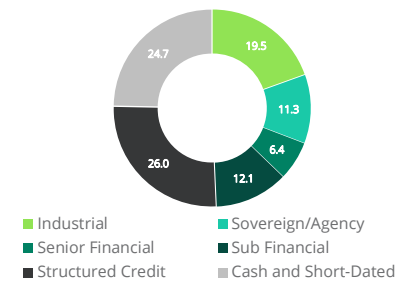


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

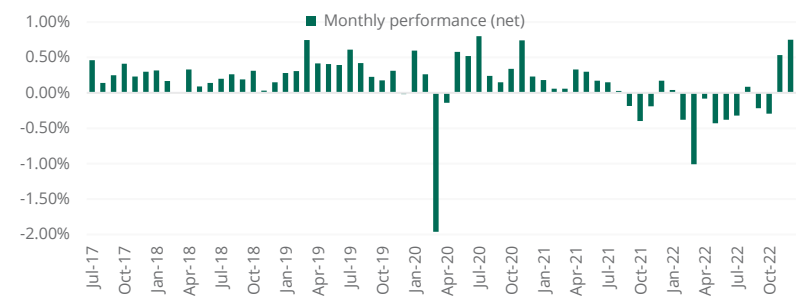
Rating Exposure (%)



Sector Exposure (%)

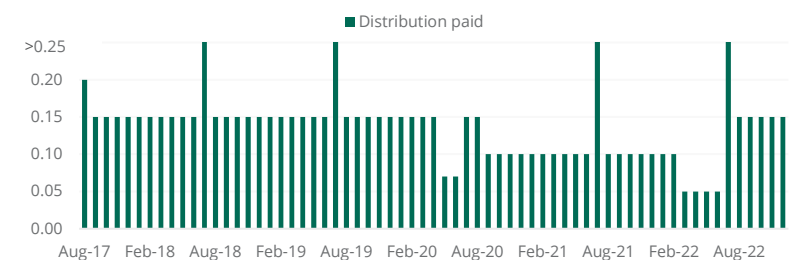


Monthly Performance



Cash Income

The Fund distributed 0.15 cents per unit in December.



Fund Review

The Core Income Trust returned 0.75% for the month net of fees. The fund's performance was positively impacted by coupon income, narrower credit spreads and overlay strategies.

The weaker-than-expected US CPI report supported markets, although this was offset by the ECB and Bank of England raising rates and indicating further hikes to come. The Bank of Japan adjustment to its yield curve control program was also a shock to markets amidst illiquid end-of year trading conditions, but the net result was a strong performance for financial issuers, particularly in subordinated paper.

The Australian 10-year bond yield rose by more than 50bp in December, with early January price action moving to reverse this sell off. Our core duration position is zero, and our view remains that inflation momentum will be more difficult to lower than what the markets currently assumes.

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

Outlook

As we move into 2023 the outlook for financial markets remains cloudy, with many of the issues that investors have grappled with for some time continuing to dominate. The question of how long the US Federal Reserve maintains peak rates is perhaps the most consequential question, in that it encapsulates most of the uncertainties markets are grappling with. Our view is that inflation has peaked in the US. Australian inflation should follow suit in the next couple of quarters. US growth should moderate, and in the absence of the China re-opening we would see the Fed relenting on tighter policy during 2023. We think on balance that bond yields will fall during 2023, but with China emerging from a 3-year lockdown we see the risks to this view as skewed to the upside. The Fed should cease hikes this year, but we think that cuts from the middle of the year that are currently priced by markets are misplaced.

The main reasons for this view are that Chinese demand should surge later in the year while the much talked about US recession should be quite shallow. The surge in Chinese demand will collide with supply chains that enter an increasing state of flux, because Covid-related disruptions that are happening now in China are likely to have a long tail. This is inflationary, and while we don't think this portends the sorts of inflation overshoots seen in 2022, we also do not believe the global move back to more normal levels of inflation will be smooth. If anything, the risk is that US inflation does not cement itself back in the 2-3% range this year even as US growth slows, which will leave the Fed in a difficult position in the context of the likely US recession. That said, personal spending growth in the US is still growing at robust rates not seen for more than 30 years. Although this momentum will wane, the strong starting point means that the US will probably experience only a shallow recession. Even so, the Fed may be limited in the amount of

support it can provide if stagflation becomes a reality with inflation flattening out at 3-4% rather than 2-3%.

Closer to home, the Chinese re-opening should have a positive impact on Australia, but not to the extent that has been seen in previous Chinese economic expansions. Historically, impacts would have primarily been felt through the commodity export channel as Chinese construction activity ramped up. We do not expect a repeat of this – rather than ramping up activity as strongly as seen in past episodes, Chinese property developers will likely use a better local backdrop to shore up their balance sheets given the traumatic economic period some have weathered. Chinese spending on infrastructure may be more muted as well, as the country continues to strive for a more sustainable growth model. Commodity demand may also be weaker, at least initially, due to stockpiling of Russian commodities. All of this means that any positive impulse to Australian net exports resulting from China's re-opening may be more modest and/or somewhat delayed as compared to past experience.

On the other hand, Australia will benefit directly from a pickup in Chinese demand for services such as tourism and education, a continued pickup in net migration, and increased non-commodity goods exports. New Zealand will benefit similarly through the larger role of services in its export mix. Australia's second and third largest export destinations are Japan and South Korea, both jurisdictions that will also benefit directly from the re-opening of China, which should somewhat offset any reduced Chinese demand for Australia's commodities.

A stronger external sector in 2023 for both Australia and New Zealand will be welcome, even if the impulse is modest, because it should partially offset a slowing in domestic activity in both countries as interest rate hikes bite and the historic build-up of fixed rate mortgages in Australia starts to roll off more quickly. In Australia, consumers have not drawn down on their savings buffers to the same extent as US consumers have. We expect this will change in 2023, with consumption smoothing supporting activity. In New Zealand, however, we see consumption coming under greater pressure, with private consumption possibly falling in 2023 given tight policy settings. All in all, we think it is likely that both the RBA and the RBNZ maintain a restrictive policy setting at or close to the terminal rate throughout the second half of 2023, though the risks of an earlier New Zealand cut are clear given the accelerated increase in and high terminal level of the policy rate.

Our view on bond markets remains unchanged – we eventually expect a global slowdown to cause government bonds to perform in the initial instance, with credit catching up with a lag. We remain focused on duration positioning primarily, in the belief that although it is still too early to lengthen duration significantly, the time to change this view is likely to arrive at some point this year. As our views change, we will communicate this with our investors, and in the interim we wish all readers a prosperous 2023.

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