

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 coupon income and credit spreads.
- Interest rates rose over the month, but having reduced duration toward the beginning of May, the impact on performance was minimal.
- The Fund continues to prudently add risk, which includes selective participation in primary issuance across financial, corporate and securitised transactions.

Key Statistics

Modified Duration (Yrs)	0.12
Spread Duration (Yrs)	2.66
Yield to Maturity (%)	6.10
Running Yield (%)	5.22
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	AUD657m
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 + 0.05% pa expense recovery
Buy/sell spread	0.00% / -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:

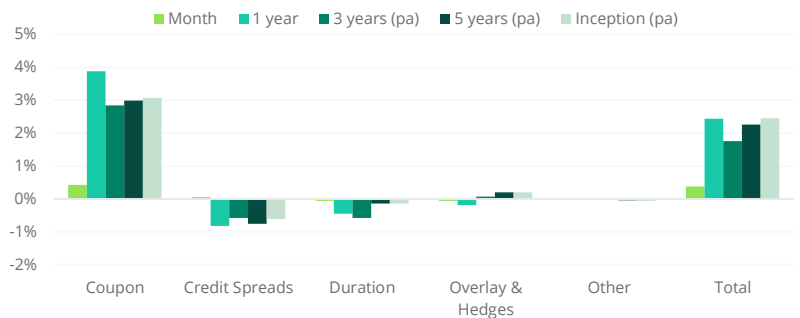
- AMP North
- Asgard
- BT Panorama
- Colonial FirstWrap
- HUB24
- Insignia
- Macquarie Wrap
- Mason Stevens
- MLC Navigator
- MLC Wrap
- Netwealth
- Praemium
- uXchange
- Xplore Wealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Inception (% pa)
Fund (gross)	0.38	0.99	2.44	1.76	2.26	2.46
Fund (net)	0.34	0.87	1.95	1.26	1.74	1.93
Distribution (net)	0.15	0.47	4.64	2.50	2.46	2.34
Growth (net)	0.19	0.40	-2.69	-1.24	-0.72	-0.41
RBA Cash Rate	0.33	0.93	2.68	0.98	1.04	1.11
Excess Return	0.01	-0.06	-0.74	0.28	0.70	0.82

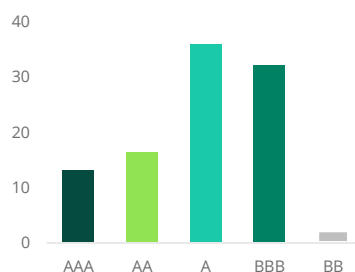
Note: Performance inception is 1 July 2017. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre Fees)

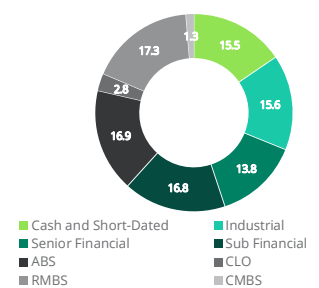


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

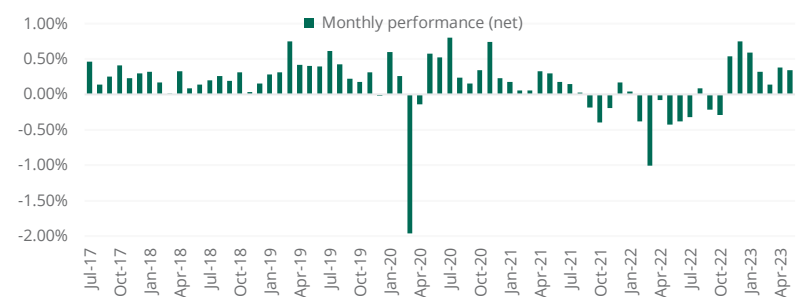
Rating Exposure (%)



Sector Exposure (%)

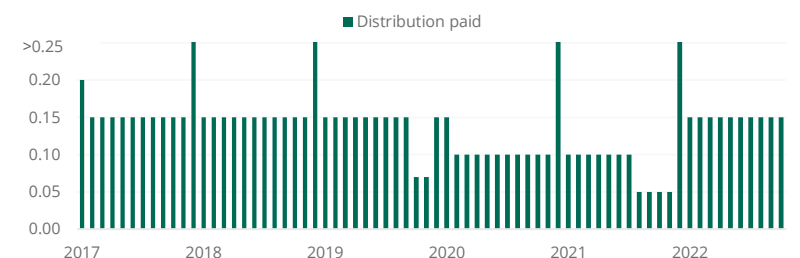


Monthly Performance



Cash Income

The Fund distributed 0.15 cents per unit in May.



Fund Review

The Core Income Trust returned 0.34% for the month, net of fees. The fund's performance was supported by coupon income and credit spreads. Duration created a modest drag as did overlay and hedging.

Credit markets were resilient with spreads holding firm or modestly tightening. A paucity of significant data allowed recent trends to continue, with higher yields enticing a broader investor base.

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Outlook

We are faced with a number of unusual occurrences as we approach the mid-point of 2023, making the formation of a short-term outlook challenging. For example, while recession expectations in the US remain high, unemployment is at the lowest level since 1968. Falling money supply and healing supply chains have quickly moderated goods inflation, but services (including property and rent costs) will prove recalcitrant without major disruption to employment outcomes. Monetary policy remains a blunt tool to address this conundrum. The recent debt ceiling agreement contains little real spending cuts and barely shifts the needle on inflation, in our view.

The debt ceiling debate created large distortions in the yield curve as investors sought to avoid exposure to a debt default. Nonetheless, the incoming data suggests some further tightening is warranted, likely attenuated by temporary pauses. Market pricing suggests further increases are also expected in Australia, driven by higher minimum wages and a surprise upswing in residential property markets in recent months. This has likely given the RBA pause for thought around whether financial conditions are tight enough to bring inflation back to target over the forecast period.

Meanwhile, European inflation surprised on the downside, raising questions about how much further tightening may be required on the Continent. In another rare occurrence of the times, European inflation break evens now exceed the US for the first time since 2012, suggesting it may still be too early to declare victory over European inflation. The ECB continues to walk a fine line between creating sufficiently tight financial conditions and disrupting employment, (unemployment is already higher than other developed markets), and growth, which remains fragile and exposed to external factors. Weaker commodity prices are offering a welcome respite to households, and this is helping to support demand.

With the Chinese economy now fully reopened, focus has shifted to the property market, estimated to be the largest single asset market in the world. Sentiment remains fragile after several high-profile developers failed in recent years. Concern is growing that further support measures will be required to protect buyer confidence and asset values, as recent data suggests lending demand for newly built properties has fallen to levels last seen in 2013. Thawing trade tensions between China and Australia is a positive for both, allowing Chinese authorities to focus on a robust and broad-based growth strategy against a backdrop of normalising commodity prices.

Credit spreads continued their positive momentum in May even as expectations for tighter financial conditions rose at the margin. Demand remains strongest for investment grade securities, which is obscuring some mixed results in segments such as leveraged loans, where defaults are being noted at an elevated rate. Credit availability is a key theme that we believe warrants close attention as the US Treasury resumes debt issuance, with concerns lingering in the commercial real estate space while banks become more selective about lending, particularly in the leveraged loan and high yield markets. We cannot rule out further spread widening as the current economic cycle matures, but a strong corporate sector will limit the impact, particularly in the investment grade segment where Daintree portfolios are heavily biased. With yields and risk compensation now much more favourable, the attractiveness of coupon income will be a more effective buffer to spread variability, providing Daintree with opportunities to gradually reposition portfolios in the months ahead.

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