

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

- High coupon receipts combined with a narrowing of credit spreads were the main drivers of returns as credit markets continued their positive year.
- The Fund participated in selected new issuance, identifying opportunities from Lloyds Group and a range of securitised sectors.

Key Statistics

Modified Duration (Yrs)	0.26
Spread Duration (Yrs)	2.52
Yield to Maturity (%)	6.34
Running Yield (%)	5.57
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	AUD673m
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:

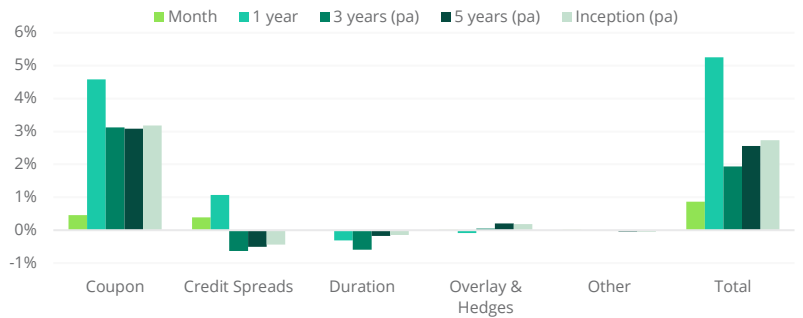
- AMP North
- Asgard
- BT Panorama
- Colonial FirstWrap
- HUB24
- Insignia
- Macquarie Wrap
- Mason Stevens
- MLC Navigator
- MLC Wrap
- Netwealth
- Praemium
- uXchange
- Xplore Wealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Inception (% pa)
Fund (gross)	0.87	2.23	5.25	1.94	2.56	2.73
Fund (net)	0.83	2.10	4.73	1.43	2.04	2.19
Distribution (net)	0.36	0.88	2.35	2.67	2.36	2.39
Growth (net)	0.47	1.21	2.38	-1.24	-0.32	-0.20
RBA Cash Rate	0.35	1.03	3.41	1.31	1.17	1.24
Excess Return	0.48	1.06	1.32	0.13	0.87	0.96

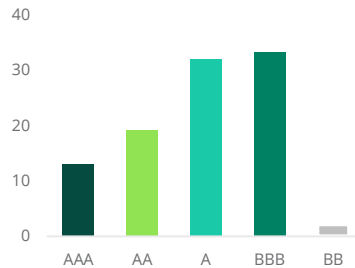
Note: Performance inception is 1 July 2017. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre Fees)

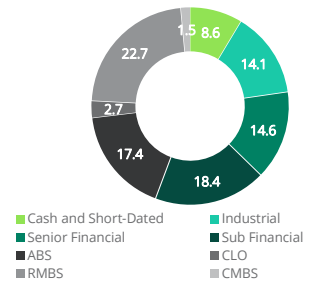


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

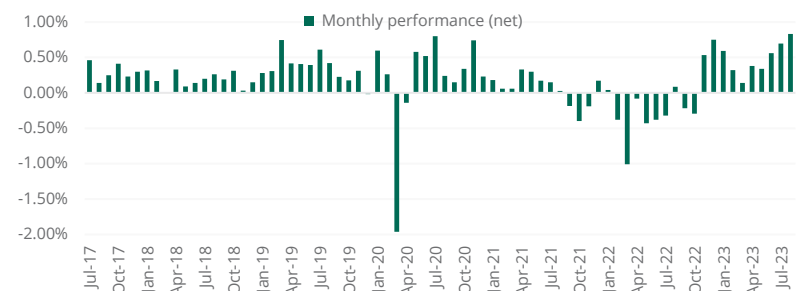
Rating Exposure (%)



Sector Exposure (%)

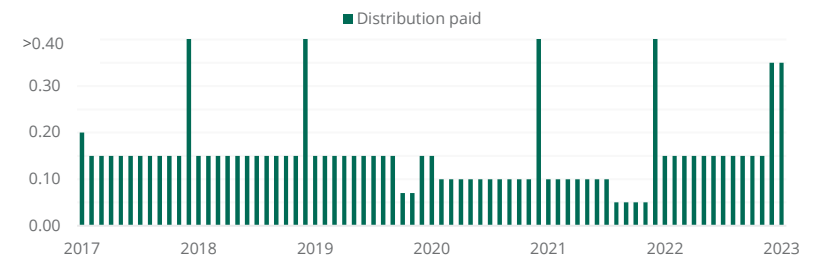


Monthly Performance



Cash Income

The Fund distributed 0.35 cents per unit in August.



Fund Review

The Core Income Trust returned 0.83% for the month net of fees. Overlay was slightly positive for the month, but high coupon receipts combined with a narrowing of credit spreads were the main drivers of returns as credit markets continued their positive year. Economic conditions have exceeded expectations, and this has seen credit spreads tighten. Credit investors, based on recent spread performance, remain sanguine about the short-to-medium term outlook.

The Fund participated in selected new issuance, identifying opportunities from Lloyds Group and a range of securitised sectors.

Outlook

More evidence emerged during August that current interest rate settings are having the desired effect on inflation without disruptively impacting growth expectations. Markets have been skillfully climbing the wall of worry, even if the breadth of performance in some markets is quite narrow.

There are still real risks on, or just over, the horizon. A growing cohort of central banks are settling into extended pauses with regards to cash rates while continuing with quantitative tightening, leading money supply growth to dip into negative territory in the US and falling under considerable pressure elsewhere. Given close correlations observed recently between money supply growth and asset prices, an extended money supply disinflation could eventually spill over into equity and credit markets.

It is not just developed markets facing these issues. China has been making headlines again for the wrong reasons, as its property market faces further turmoil among developers, one of which was late in paying bond investors last month. Persistent youth unemployment and an unwillingness to deploy significant debt-fueled stimulus to kick start activity suggest Chinese authorities have deep structural

challenges to face with a limited remedial toolkit. Therefore, investors should not expect the Chinese miracle to save markets as they did in 2008.

Oil prices continued to rise in August. This will filter through to transportation fuel prices in due course and if sustained could risk causing new ripples in headline inflation. Core inflation measures strip out volatile elements such as these, but energy is an essential input across the value chain and could complicate efforts to square inflation data with inflation messaging, where the dominant narrative remains a steady return to target over the medium term.

Amidst a transition to a new governor this month, the RBA has now held the cash rate steady for three consecutive meetings, while maintaining flexibility to respond to conditions as they evolve. A modest rise in unemployment and moderating monthly inflation data should give the RBA the confidence to take additional time to assess how prior cash rate movements affect economic conditions over coming months. Interest rate futures markets have subsequently shifted from possible further increases to the next move now being a cut, despite the RBA's wariness of inflation.

Credit spreads once again tightened in August, which in our view reflects the strong fundamentals that we have been discussing now for some time. Fundamentals were reinforced locally by a solid Australian profit results season. Corporates have low gearing in comparison to long-term averages, and cash balances that are benefiting from higher interest rates. Concerns linger in the commercial real estate space and banks are becoming 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. Strong coupon income is well placed to provide a buffer to mild spread volatility in the months ahead.

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