

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 toll road operators and a range of securitised sectors.

Key Statistics

Modified Duration (Yrs)	0.20
Spread Duration (Yrs)	2.55
Yield to Maturity (%)	6.57
Running Yield (%)	5.94
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	AUD691m
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:

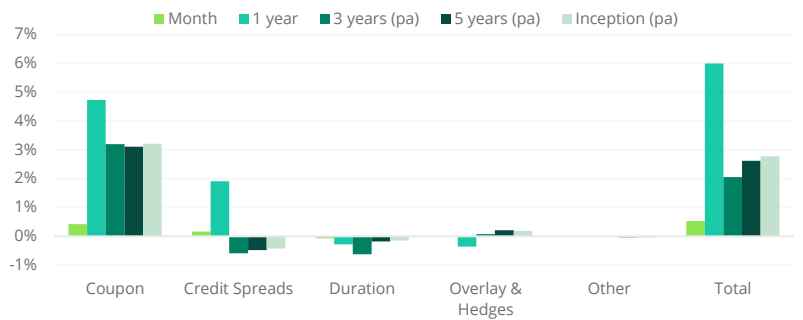
- AMP North
- Asgard
- BT Panorama
- Colonial FirstWrap
- HUB24
- Insignia
- Macquarie Wrap
- Mason Stevens
- MLC Navigator
- MLC Wrap
- Netwealth
- Praemium
- uXchange
- Xplore Wealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Inception (% pa)
Fund (gross)	0.53	2.17	6.00	2.06	2.62	2.78
Fund (net)	0.49	2.03	5.47	1.55	2.10	2.24
Distribution (net)	0.36	1.09	2.57	2.76	2.40	2.45
Growth (net)	0.13	0.94	2.90	-1.21	-0.30	-0.21
RBA Cash Rate	0.34	1.04	3.56	1.41	1.22	1.27
Excess Return	0.15	0.99	1.91	0.13	0.88	0.97

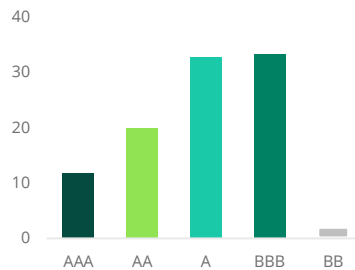
Note: Performance inception is 1 July 2017. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre Fees)

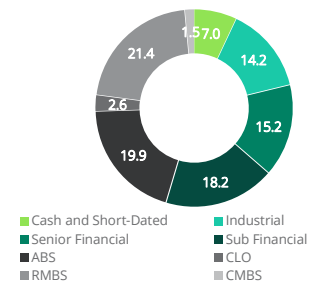


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

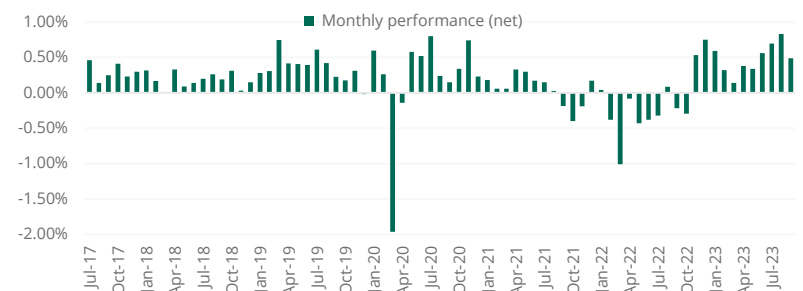
Rating Exposure (%)



Sector Exposure (%)

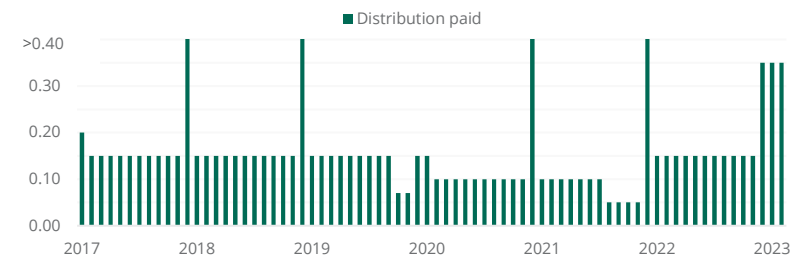


Monthly Performance



Cash Income

The Fund distributed 0.35 cents per unit in September.



Fund Review

The Core Income Trust returned 0.49% for the month net of fees. The Fund's performance was supported by coupon income and credit spreads. Duration exposure was kept low which reduced volatility, but the quantum of yield moves still created some drag on performance as yield curves steepened considerably. Overlay was a slight positive contributor for the month.

Credit markets remained resilient amidst the uncertainty created by rising interest rates. Based on recent spread performance, credit investors remain sanguine about the medium-term outlook.

The Fund participated in selected new issuance, identifying opportunities from toll road operators and a range of securitised sectors.

Outlook

Financial conditions tightened materially in September, with higher longer-term interest rates the chief culprit. Long yields are being driven higher by a reassessment of expected future central bank actions. Adding to the upheaval is dysfunction in the US Congress, where another government shutdown is possible and, in a first for the US, the Speaker was ousted after just eight months in the job.

One interesting thing about this move in yields is what it was not driven by – pricing for inflation expectations remained reasonably stable along the curve. Therefore, the higher bond yields have been driven by higher real yields. Historically, changes to longer-term expectations around monetary policy (whether conventional or unconventional) have been responsible for similar abrupt shifts in real yields, for example via shifts lower in the weeks after QE program announcements. The reversal of yield curve control in Japan seems to have had the opposite impact more recently, with yields shifting higher since July, but the latest iteration of the Federal Reserve “dot plot” is the main recent driver. It showed a hawkish shift in the governors’ outlook over the longer-term, and markets have come to the view that the US economy, having dealt with a higher Fed Funds rate for some time now without mishap, can also deal with higher rates over the longer-term. This has seen the market’s view of longer-term distribution for real rates shift higher. A growing realisation of the budgetary position of the United States, where large (and growing) fiscal deficits look to be the norm for the remainder of the decade, is another driver of higher yields that remains on the minds of market participants.

Higher yields are likely attracting capital at the margin to the large and liquid treasuries market, driving the US dollar higher, even as the fiscal outlook is deteriorating quickly and interest costs alone will soon

exceed US\$1tr per year. Hyper-partisanship in the houses of government is stymying any chance of finding sensible fiscal solutions. Throw in the upcoming presidential election in late 2024 and the chances of any budgetary reform occurring are exceedingly slim. Therefore, while investors are attracted to rising yields or reflexively favour USD as a haven from global growth concerns, we believe this comes with higher-than-normal risk that domestic fundamentals may eventually exert a contrary influence on the world’s reserve currency.

Even Japan has not been immune to the march higher of interest rates. However, this comes at the expense of a weakening yen, which has fallen to its lowest levels in a year and back to the psychologically important 150 per USD level. The Bank of Japan showed its hand with multiple interventions to defend that level in 2022, and despite having eased its yield curve control programme and allowed long-end yields to vary within wider bands, we expect further interventions if yen tests the lows of last year.

Oil prices continue to pose a threat to the orderly return of inflation to target levels. 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.

Despite pausing for a fourth month, a weakening AUD, solid immigration and employment outcomes, and resilient coal and LNG prices will keep pressure on the RBA board to hike further in coming months, possibly as early as Melbourne Cup day. However, financial markets are growing in their conviction that the cash rate has peaked, expecting the impacts of prior increases to be widely felt, particularly in the mortgage belt. We believe the odds are more finely balanced than what markets suggest.

Credit spreads held up well in September against a tumultuous backdrop. Corporates have low gearing in comparison to long-term averages, and cash balances that are benefiting from higher interest rates. Limited refinancing needs are insulating well-rated companies from higher interest rates, although higher funding costs will create an increasing headwind into 2024 and 2025 as cheap pandemic-era debt is repaid or refinanced. 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 will remain the foundation of the return profile over time.

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