Daintree CAPITAL

DAINTREE HIGH INCOME TRUST

MONTHLY FACTSHEET: 31 October 2021

Awards & Credentials

The Daintree High Income Trust has been awarded an Approved rating by Zenith. Daintree Capital is also a signatory to the United Nations Principles for Responsible Investment.

Zenith Investment Partners Approved

Signatory of: PRI Principles for Responsible Investment

Fund Description

The Daintree High Income Trust (the Fund) is an absolute return 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 over the medium term, by investing in a diversified portfolio of fixed income securities. The Fund seeks to produce a return (net of fees) that exceeds the RBA Cash Rate by 3%-4% p.a. over a rolling three to five-year period.

Monthly Highlights

- Wider credit spreads detracted from performance in October, with weakness in financials the main drivers
- Higher bond yields also detracted, although this was mitigated by the low duration stance of the Fund

Key Statistics

Modified Duration (Yrs)	0.97
Spread Duration (Yrs)	4.68
Portfolio Yield (%)	3.81
Average Credit Quality	BBB-
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 High Income Trust
Responsible Entity	Perennial Investment Management Ltd
Portfolio managers	Mark Mitchell & Justin Tyler
Inception date	1 November 2018
APIR code	WPC1583AU
Management costs	0.75% pa
Buy/sell spread	+0.15% / -0.15%
Entry and exit fees	None
Pricing frequency	Daily
Minimum initial investment	$10,000
Distribution frequency	Monthly
Currency	Australian Dollar

Platforms

The Daintree High Income Trust is available on the following platforms:

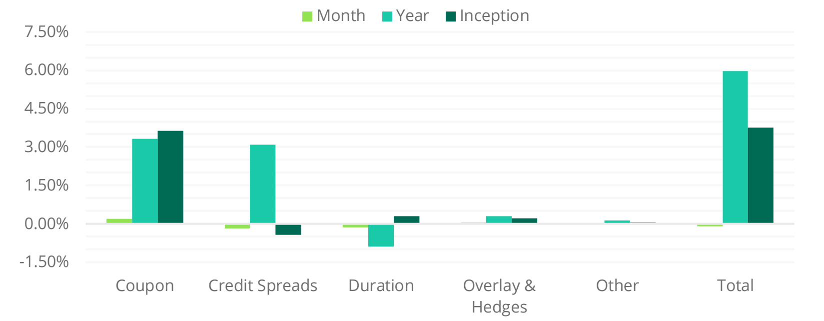
- BT Panorama
- HUB24
- Netwealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	Inception (% pa)
Fund (gross)	-0.09	0.64	5.96	3.76
Fund (net)	-0.16	0.45	5.21	3.01
Distribution (net)	0.20	0.62	7.88	4.41
Growth (net)	-0.36	-0.18	-2.67	-1.40
RBA Cash Rate	0.01	0.03	0.10	0.61
Excess Return	-0.16	0.42	5.11	2.40

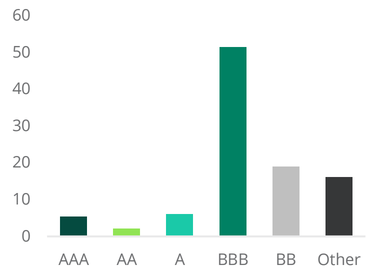
Note: Performance inception is 1 November 2018. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator of future performance.

Performance Contribution (Pre-Fees)

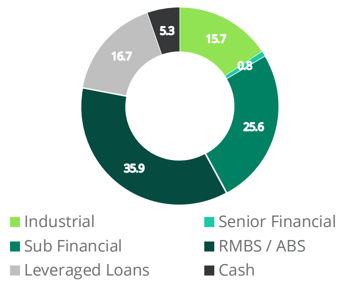


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

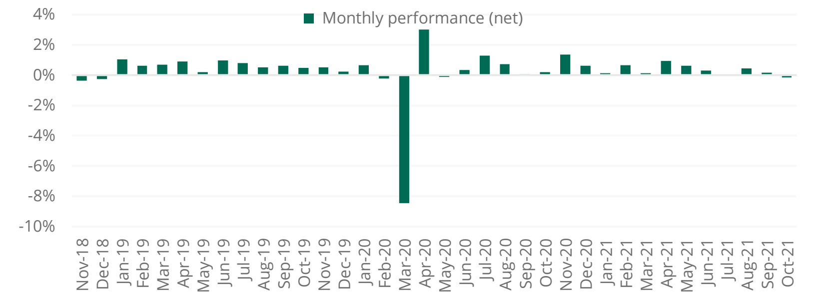
Rating Exposure (%)



Sector Exposure (%)

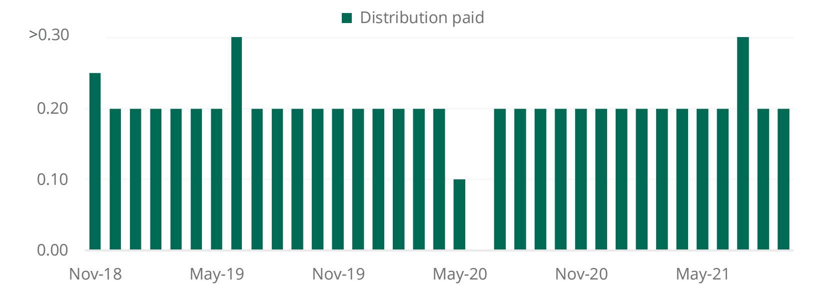


Monthly Performance



Cash Income

The Fund distributed 0.20 cents per unit in October.



Fund Review

The High Income Fund returned -0.16% for the month bringing the rolling twelve-month performance to 5.21% net of fees. The fund's performance was impacted by the selloff in government bonds as well as slightly wider credit spreads in overseas markets, which more than offset positive contributions from coupon and overlay strategies. Sector performance was mixed as corporate spreads were generally tighter while subordinated financial spreads were wider. The fund continues to have a modest interest rate duration positioning at 0.97 years.

October was another busy month of securitisation issuance with ten transactions pricing. We participated in a number of new deals during the month including AFG 2021-2, Light Trust 2021-1, Athena 2021-1, Brighte Green 2021-1, and Flexicommercial 2021-2 transactions. Corporate and financial issuance was relatively modest, but we did participate in the Investa Commercial Property Fund 2030 transaction.

Outlook

What a month. The volatility in the Australian bond market during October was nothing short of extraordinary. Many fixed income market participants had expected a 'taper tantrum' of sorts at some point this year. In February it seemed that such predictions would be proved correct, but subsequently we saw longer tenor yields falling as the bond market proved unable to push sustainably into a new, higher range. Indeed, six months later the 10-year yield in Australia was very close to where it had been in January 2021, before the February 2021 sell-off took place.

History may well show that the tantrum many expected to happen actually took place in October. It happened in the shorter-dated part of global yield curves as opposed to the 10-year part of the curve that garners so much attention in markets. The catalyst? Bond markets pushing back, in a significant and synchronised way, on the expectation that global central banks would keep cash rates on hold for an extended period. After central banks in several emerging markets tightened monetary policy, we then saw the Bank of England turn hawkish. This was followed by a surprise out of New Zealand where CPI was higher than expected, a surprise out of Canada where the Bank of Canada unexpectedly suspended asset purchases, and (most notably) the failure on the part of the RBA to defend the yield target on the 2024 bond in Australia after a slight upside inflation surprise, which sparked a savage sell off. Yields on short-tenor bonds rose in unison across the globe in dramatic fashion, particularly in Australia where the 3-year bond pushed higher in yield by 91 basis points. This was the largest such move higher in the three-year bond yield in a calendar month since June 1994. Market liquidity in this normally very liquid part of the bond market evaporated, with the usual depth of the 3-year futures contract of more than 1000 contracts available to buy or sell during the Australian trading day reducing to around 20 contracts. The normal ability of investors to react to the changing risk backdrop was therefore severely curtailed.

Where does this upheaval leave markets? As we write, the RBA has formally changed its guidance to the market, removing yield curve control. Yield levels and liquidity are now normalizing, but we see the credibility of the RBA as damaged, which means their ability to use rhetoric to move markets is likely to be compromised for the time being. Changes on the part of overseas central banks will continue to move the Australian bond market, despite the protestation of the RBA Governor that Australia faces unique circumstances. Importantly, the front end of the Australian yield curve will be more data dependent, and the 3-year bond will settle into a new (and higher) range. In our view that is a good outcome, even if the path markets took to get to this outcome was needlessly bumpy.