DAINTREE
CORE INCOME TRUST (NZD)

MONTHLY FACTSHEET: 31 December 2021

Awards & Credentials

The Daintree Core Income Trust has been awarded a Recommended rating by both Lonsec and Zenith. Daintree Capital is also a signatory to the United Nations Principles for Responsible Investment.

Zenith Investment Partners Recommended

Recommended Lonsec Research

Signatory of: PRI Principles for Responsible Investment

Fund Description

The Daintree Core Income Trust NZD Unit Class (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 RBNZ Cash Rate by 2.00-2.50% p.a. over a rolling three-year period.

Monthly Highlights

- Credit spreads narrowed on the month, aiding performance
- Duration and overlay positioning were small detractors

Key Statistics

Modified Duration (Yrs)	0.36
Spread Duration (Yrs)	3.61
Portfolio Yield (%)	1.80
Average Credit Quality	A-
Portfolio ESG score (MSCI)	A

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 (NZD Unit Class)
Funds under management	NZD673m
Responsible Entity	Perennial Investment Management Ltd
Portfolio managers	Mark Mitchell & Justin Tyler
Inception date	14 May 2018
APIR code	WPC0696AU
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	New Zealand Dollar

Platforms

The Daintree Core Income Trust (NZD Unit Class) is available on the following platforms:

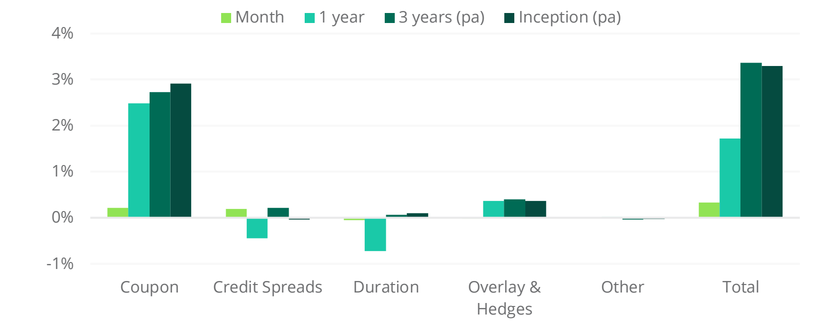
- FNZ
- Aegis
- NZXWT

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	Inception (% pa)
Fund (gross)	0.33	-0.11	1.72	3.37	3.30
Fund (net)	0.29	-0.23	1.22	2.85	2.77
Distribution (net)	0.10	0.34	1.63	1.74	1.98
Growth (net)	0.19	-0.57	-0.41	1.11	0.79
RBNZ Cash Rate	0.06	0.15	0.33	0.71	0.88
Excess Return	0.23	-0.38	0.89	2.14	1.89

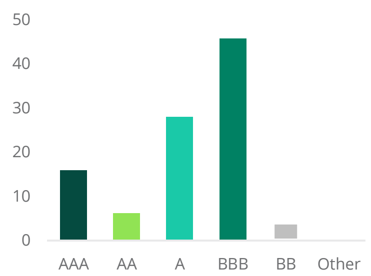
Note: Performance inception is 1 June 2018. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre Fees)

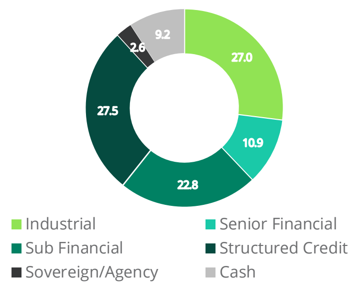


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

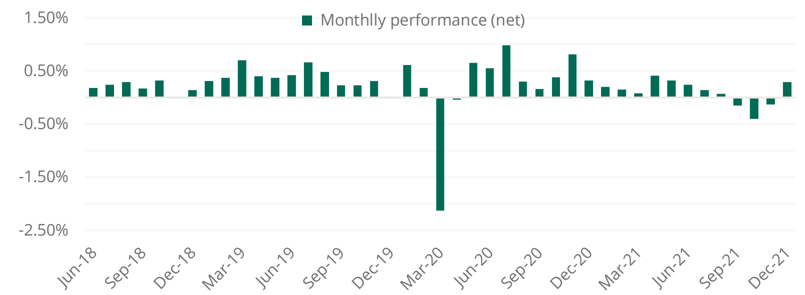
Rating Exposure (%)



Sector Exposure (%)

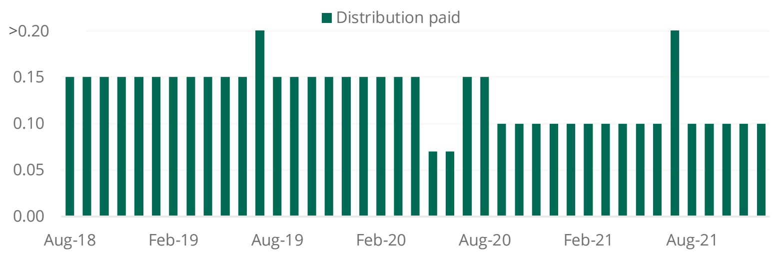


Monthly Performance



Cash Income

The Fund distributed 0.10 cents per unit in December.



Fund Review

The Core Income Fund returned 0.29% for the month bringing the rolling three-year performance to 2.85% (2.14% above cash). The fund's performance was aided by narrower credit spreads and coupon income, with interest rate positioning a small detractor. Credit spread movements were relatively minor with some modest widening in corporates and RMBS, while subordinated financials were tighter. The fund continues to have a very modest interest rate duration positioning of 0.36 years.

No surprise that new issuance slowed down during the month. There were no new RMBS transactions for the fund, however we did participate in the Computershare 2027 transaction. Given the illiquidity going into year-end, we have left cash levels modestly elevated.

Outlook

Covid continued to cast a long shadow over most activity in 2021, as it did in 2020, with long-lived lockdowns in many parts of Australia and New Zealand. Moving into 2022, however, there has been a change in sentiment. The reality of living with the virus has been accepted by most in antipodean politics and the shadow of Covid is therefore receding.

For markets, however, the virus continues to cast a shadow because the dislocated global supply chain continues to put upward pressure on prices. China's zero-tolerance approach to the virus will ensure this remains the case in 2022. Investors will therefore remain highly uncertain as to the severity of US inflation, likely policy responses, the extent of the subsequent slowdown and the severity of global spillovers.

Just how much will monetary policy in the US and elsewhere be tightened? We live in a world where leverage is elevated and demand for new credit is therefore low. Credit impulse data remain weak across several jurisdictions. Conceptually, this means the contribution of new credit growth to GDP is weak. If the main channel by which tighter monetary policy works is to restrain demand for credit, it follows that all else being equal, a weakening credit impulse reduces the need for tighter monetary policy. Bond markets realise this, refusing to price a prolonged tightening cycle against this backdrop. A faster than expected pace of near-term rate hikes in developed market economies (most notably the US) may be required to fight inflationary impulses, but even the hikes currently priced are expected to result in a long tail of slower growth.

Australia will not be immune from tighter global financial conditions. For example, AUD weakness amid broad USD strength may contribute to higher imported inflation which brings forward RBA hikes. High household savings rates in Australia have also driven expectations among some market participants that household spending will drive above-trend local growth in 2022. We do not subscribe to these views. The consumer caution that has been a feature of the post-GFC landscape will not suddenly disappear, regardless of household balance sheet strength. Views that Australian inflation may surprise to the upside in 2022 are therefore likely misplaced. The crucial element that drives our core view is low wages growth. For several years, labour force underutilisation has been too elevated to sustain higher wages. We believe the opening of the international border will in fact cause a supply shock that drives this underutilisation higher. Of course, such a shock will dissipate over time. Nonetheless, we believe it will elongate an already long path to sustained higher wages in Australia. We therefore maintain our view that the RBA hiking cycle will start later than markets expect. It should also be remembered that low fixed home loan rates will start reverting to standard variable rate pricing or higher fixed rates in 2023, while the delivery of stage 3 tax cuts that might be expected to act as an offset to this will mostly benefit higher income households with a higher propensity to save. We therefore retain our view that rate hikes in Australia are more likely in 2023 or 2024 than in 2022.

Even as the RBA tightening cycle lags those of other global central banks, 2022 will still be a year where monetary accommodation is wound back globally. Investors will increasingly focus less on the near-term trajectory for rate hikes in the US and more on the terminal cash rate for the cycle. Asset market volatility typically increases at this point in the cycle, a change that may be exacerbated by the withdrawal of unconventional stimulus in various jurisdictions (including Australia). Near-term tightening in the US is fully priced and in Australia, we would argue 2022 tightening is excessively priced. It follows that we see yields in the short end of the Australian curve as excessive, but at the same time we do not see a catalyst for a re-price lower. In fact, we would concede that if our core RBA view is incorrect, the risks are indeed skewed towards earlier hikes as opposed to later hikes. As markets continue to grapple with what a future that is not dominated by Covid means for the global growth/inflation trade-off, we may also see a re-rating of growth expectations in Australia and elsewhere. Against this backdrop we see duration risks as evenly balanced for the first time in quite a while.

So, as 2021 draws to a close, we thank all our investors for their trust over the last year. We wish everyone a safe and prosperous 2022 as we look forward to a better year health-wise. Markets will remain challenging though, with elevated volatility a likely feature. Against this backdrop, at Daintree we continue to emphasise the importance of a defensive investment capability that focuses on capital preservation.