DAINTREE HIGH INCOME TRUST

MONTHLY FACTSHEET: 30 April 2022

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 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

- High Income Trust performance was negatively impacted by wider credit spreads, however coupon income as well as positive contributions from overlay and hedging strategies resulted in a positive return for the month.
- Fund duration has been reduced to zero and we note that when market conditions normalise, this period will give rise to a portfolio with a much higher yield that will benefit investors over time.

Key Statistics

Modified Duration (Yrs)	-0.01
Spread Duration (Yrs)	1.83
Portfolio Yield (%)	2.56
Average Credit Quality	BBB+
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 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:

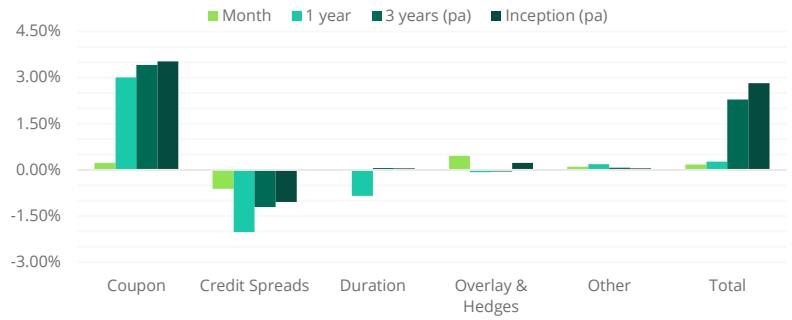
- BT Panorama
- HUB24
- Macquarie Wrap
- Netwealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	Inception (% pa)
Fund (gross)	0.18	-1.45	0.22	2.25	2.78
Fund (net)	0.12	-1.64	-0.53	1.51	2.03
Distribution (net)	0.05	0.16	7.07	4.23	3.98
Growth (net)	0.07	-1.80	-7.60	-2.73	-1.95
RBA Cash Rate	0.01	0.02	0.10	0.38	0.54
Excess Return	0.11	-1.67	-0.63	1.13	1.50

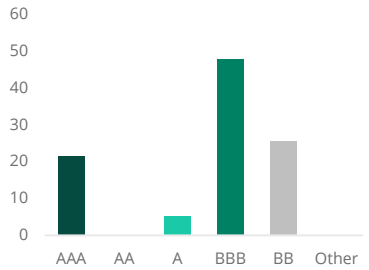
Note: Performance inception is 1 November 2018. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre-Fees)

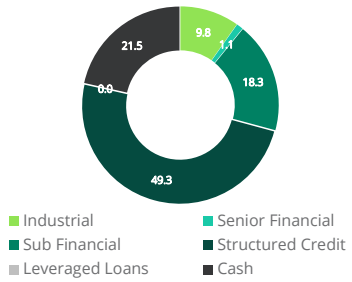


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

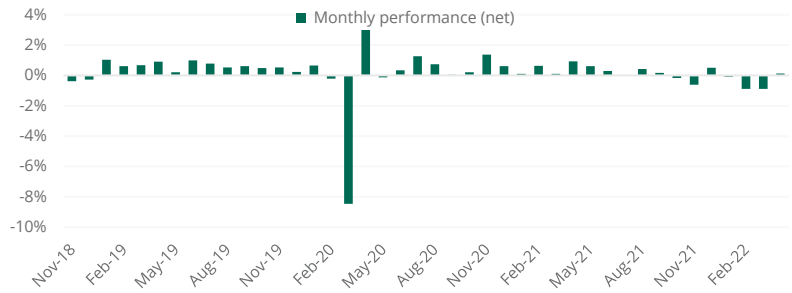
Rating Exposure (%)



Sector Exposure (%)

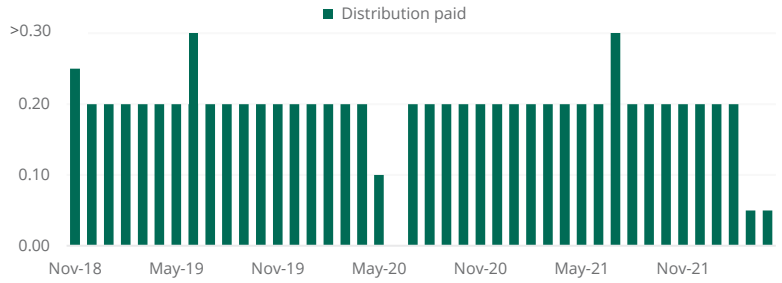


Monthly Performance



Cash Income

The Fund distributed 0.05 cents per unit in April.



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Fund Review

The High Income Trust returned 0.12% for the month net of fees. The fund's performance was negatively impacted by wider credit spreads which offset coupon income as well as positive contributions from overlay and hedging strategies. On average spreads were approximately 6 basis points wider on the month with weakness seen across corporates, financials and structured credit. However, local A$ cash spreads outperformed both US and EUR investment grade spreads. We have further reduced our interest rate duration to zero from a neutral position of 0.20 years last month, which helped the fund materially given the additional 29 basis point correction seen in Australian 10-year bonds during the month.

Given our defensive positioning, we did not participate in many new issues during the month, but we did purchase an NBN 2027 green bond as well as a CBA 2027 subordinated deal. We sat out of deals from Toronto Dominion, Volkswagen, OCBC and Bank of Queensland among others. In the structured credit space, we saw news deals from Ruby 2022-1 and Think Tank 2022-1. Goodman and CSL priced deals in the US market.

Outlook

After a consolidation in late March, April saw a resumption of the trends apparent since late 2021. Rates markets globally saw yield curves flatten, with the focus on how much and how quickly central banks will act to normalise interest rates. Meanwhile, credit markets are working through the impacts of inflation and spreads moved modestly wider again during the month. In addition, outsized moves in major currencies such as the yen created an additional dynamic that kept investors on edge.

With the decision of the RBA to increase interest rates for the first time in 10 years, and offering a strong signal that further increases are imminent, Australia has joined much of the world in a concerted push to bring interest rates back to a neutral setting as swiftly as possible. Subject to the evolution of the inflation picture in coming months, we should expect rates to rise at most meetings of the RBA this year, toward an estimated neutral rate around 2.5%. With up to 40% of local borrowers having at least some part of their borrowings fixed, the flow through to the real economy will be gradual.

In the US, we expect quantitative tightening (ie: the reduction in the Fed's holdings of Treasuries) to begin in coming weeks in addition to rate increases, which we have held for some time to be the "x-factor", particularly for financial markets. This will have the effect of removing excess liquidity from the system which given the prominence of the US dollar in global trade and commerce, could have unintended consequences well beyond America's shores.

COVID-related disruptions in China and the conflict in Ukraine show us that ongoing supply chain concerns will linger for the foreseeable future. Part of the inflation story can be attributed to these factors, on which tighter monetary policy can have limited impact. In the real economy, employment indicators have positively exceeded expectations, creating upward pressure on wages. This is creating challenges for businesses that are seeing raw material input costs and wage costs rise more quickly than they have for some time, risking margin contraction if these cannot be passed through to consumers.

Thus, overall we expect volatility to continue and maintain a defensive posture as a result.