DAINTREE HIGH INCOME TRUST (NZD)

MONTHLY FACTSHEET: 31 May 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 NZD Unit Class (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 RBNZ Cash Rate by 3%-4% p.a. over a rolling three to five-year period.

Monthly Highlights

- The fund's performance was negatively impacted by wider credit spreads, particularly in CLOs and Tier 2 financials. Overlay and hedging strategies also contributed small negative returns.
- We avoided most new issuance during the month in line with our defensive stance.

Key Statistics

Modified Duration (Yrs)	0.80
Spread Duration (Yrs)	1.76
Portfolio Yield (%)	3.69
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 (NZD Unit Class)
Responsible Entity	Perennial Investment Management Ltd
Portfolio managers	Mark Mitchell & Justin Tyler
Inception date	1 November 2018
APIR code	WPC0529AU
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	New Zealand Dollar

Platforms

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

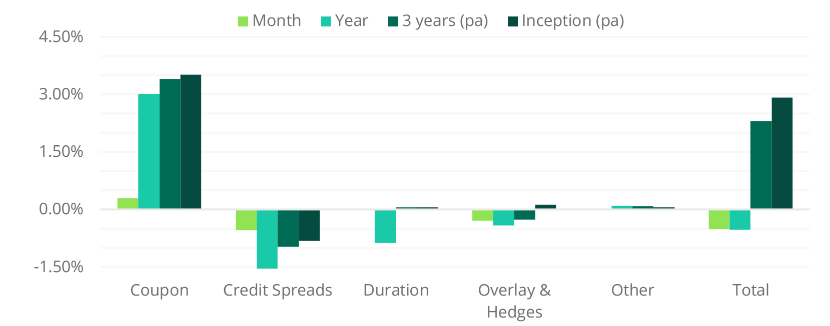
◊ FNZ ◊ Aegis ◊ NZXWT

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	Inception (% pa)
Fund (gross)	-0.52	-1.01	-0.53	2.30	2.92
Fund (net)	-0.58	-1.20	-1.27	1.55	2.17
Distribution (net)	0.05	0.15	4.01	2.96	2.94
Growth (net)	-0.63	-1.35	-5.29	-1.40	-0.77
RBNZ Cash Rate	0.14	0.33	0.68	0.47	0.78
Excess Return	-0.72	-1.52	-1.96	1.09	1.39

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.

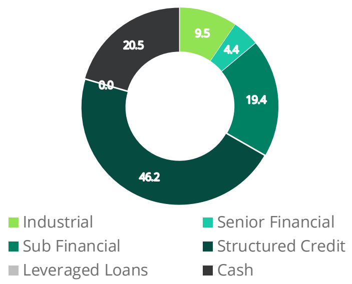
Performance Contribution (Pre Fees)



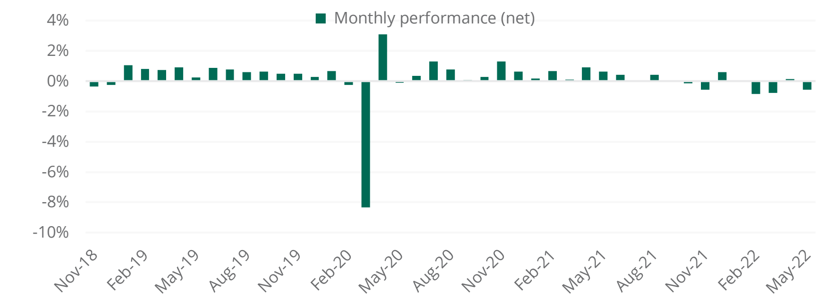
Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

Rating Exposure (%)

Sector Exposure (%)

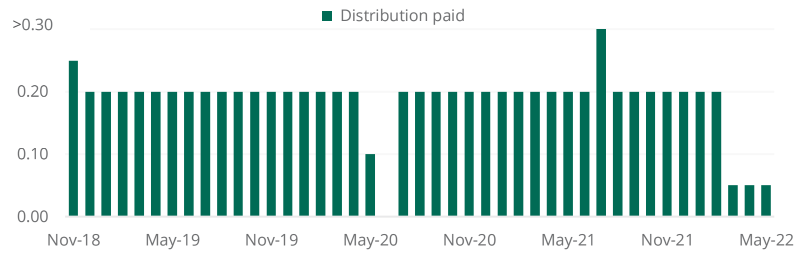


Monthly Performance



Cash Income

The Fund distributed 0.05 cents per unit in May.



Proudly supporting: ONE TREE PLANTED

Fund Review

The High Income Trust returned -0.58% for the month net of fees. The fund's performance was negatively impacted by wider credit spreads which offset coupon income. In addition, the fund had a small negative contribution from overlay and hedge positions. Performance was most negatively impacted by our CLO and Tier one financials exposure. On average Australian credit spreads were approximately eight basis points wider on the month, underperforming US$ spreads which were about five basis points tighter. We slightly increased the fund core interest rate position in the month from 0 to 0.25 years.

Given our defensive positioning and continuing bearish outlook for spreads, we largely avoided new issues during the month but did participate in the Vicinity green bond issue.

Outlook

Despite major intra-month volatility in rates and equities markets, by the end of May risk assets had largely finished where they started. The volatility is being driven by the ongoing tension caused by persistent inflation rubbing up against a more uncertain growth outlook. Indeed, while 2022 consensus inflation forecasts now average more than 7% across the United States, Europe and the UK, consensus growth estimates have fallen from an average of 4.5% in March to now be only just above 3%. The primary dilemma for central banks remains how to address inflation without impeding growth expectations too severely.

Supply chain disruptions and rising energy costs continue to cast a long shadow over the global economy. Despite this, late May gave rise to a relief rally of sorts as COVID lockdowns in China began to ease. The reopening of some the largest container ports in the world will have a positive knock-on effect for parts of the supply chain, but restrictive transport costs and the impact of the war in Ukraine will persist for at least the remainder of this year. Supply-side inflationary forces such as these will limit the effectiveness of the interest rate tightening cycle. The question is, will high energy prices and shortages sufficiently dampen activity of their own accord and reduce the need for restrictive tightening, or will they keep inflation elevated and force central banks to continue their normalisation agenda?

The RBA increased the cash rate for the first time in more than a decade, and Australia saw a change of federal government during the month. With little detail or major differentiation in the policy outlook, let alone anything resembling a reform agenda, financial markets took little notice of the election result. However, the movement in cash rate was notable in that it occurred during the election campaign and before the release of highly anticipated wage data that printed below expectations. We would expect additional increases at most meetings for the remainder of the year, while not discounting the possibility that headline inflation has yet to peak. We also note that the structure of Australian mortgage markets allows the transmission mechanism of cash rates through to the real economy to be quick and direct, at least for borrowers. In the banking system, deposits continue to grow faster than loans, suggesting an underlying caution amongst households as cost-of-living pressures remain front-of-mind.

Credit spreads continue to gradually widen, a trend that has persisted for close to a year. Relative value is emerging across a range of sectors, because while economic uncertainty has increased, expected returns have in some cases doubled while the probability of default has not. While asset valuations in some growth-heavy sectors have moderated in recent months, corporate fundamentals overall remain strong. Similarly, bank balance sheets have limited allowances for credit losses, but households are showing a high degree of prudence in uncertain times. We retain a degree of flexibility in our portfolios, with modest credit hedges complementing higher-than-normal cash levels, and limited duration.