DAINTREE HIGH INCOME TRUST

MONTHLY FACTSHEET: 31 October 2023

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.

Zenith APPROVED · Investment Grade · 1ST ERIG INDEX · Signatory of: PRI Principles for Responsible Investment

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 coupon receipts combined with a narrowing of credit spreads were the main drivers of returns as credit markets continued their positive year.
- Duration positioning was kept low, dampening volatility and preserving capital.
- The Fund participated widely in new issuance, identifying opportunities from banks, other financials, infrastructure and a range of securitised assets.

Key Statistics

Modified Duration (Yrs)	0.10
Spread Duration (Yrs)	2.06
Yield to Maturity (%)	8.31
Running Yield (%)	7.56
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	0.70% pa + 0.05% pa expense recovery
Buy/sell spread	+0.15% / -0.15%
Entry and exit fees	None
Pricing frequency	Daily
Minimum initial investment	$10,000
Distribution frequency	Quarterly
Currency	Australian Dollar

Platforms

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

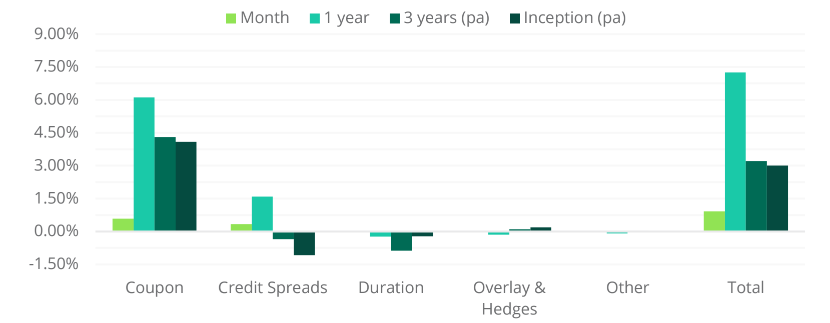
- BT Panorama
- HUB24
- Colonial FirstWrap
- Macquarie Wrap
- Netwealth

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	Inception (% pa)
Fund (gross)	0.92	2.33	7.25	3.21	3.00
Fund (net)	0.86	2.16	6.54	2.47	2.26
Distribution (net)	0.00	1.43	3.57	4.54	3.80
Growth (net)	0.86	0.73	2.97	-2.07	-1.55
RBA Cash Rate	0.35	1.04	3.71	1.52	1.26
Excess Return	0.51	1.12	2.83	0.95	0.99

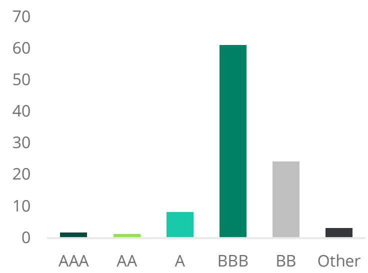
Note: Performance inception is 1 November 2018. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre-Fees)

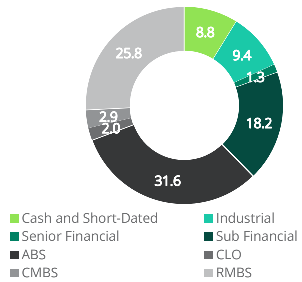


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

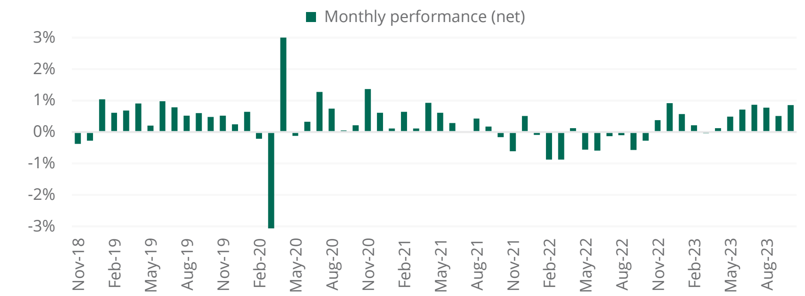
Rating Exposure (%)



Sector Exposure (%)



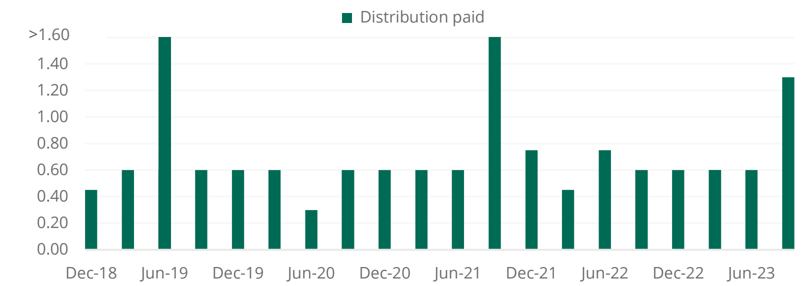
Monthly Performance



* 8.45% drawdown and 3.00% uplift in March and April 2020 respectively

Cash Income

The Fund distributed 1.30CPU in September. The next distribution will be paid in December.



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Fund Review

The High Income Trust returned 0.86% 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 and limited performance impact. Overlay and hedges were neutral contributors for the month.

Credit markets remained resilient amidst rising geopolitical tensions. Based on recent spread performance, credit investors remain more focused on solid corporate fundamentals and a supportive technical backdrop as year-end approaches.

Yield curves continued to steepen, driven by the re-establishment of term premium as the size and scale of the funding challenges facing most governments becomes a focus point for markets.

The Fund was very active in purchasing new issuance, identifying opportunities from banks, other financials, infrastructure, and a range of securitised assets.

Outlook

Events in the Middle East captured the world's attention on 7 October, adding a new dimension of risk to global growth and inflation narratives. However, by the end of the month, expectations of further interest rate increases had subsided (except in Australia where the data has driven an increase in November) and financial conditions had eased (driven by rising risk asset valuations).

Risks to the already fragile growth outlook from conflict between Israel and Hamas include disruption to energy markets, given that so much global supply emanates from the region. This risk will become more meaningful if hostilities spill over into a wider regional conflict. Iran, and its proxies in Lebanon, Syria and Yemen have voiced their support for the Palestinians but have refrained from major physical engagements to date. Given oil futures closed the month lower, energy traders do not share our level of concern for potential supply disruptions.

Geopolitics notwithstanding, inflation concerns continue to abate, leading traders to dust off their predictions on the timing of interest rate cuts. There are two scenarios that could lead to a central bank pivot. The first would be in response to growing and widespread conflict across multiple regions as a response to expected trade and economic shocks. The second scenario would see growth materially slow, employment conditions soften, widespread corporate defaults and/or corporate profitability severely weakening. Given the resilience of the global economy over 2023, we see both scenarios as quite unlikely, and thus hold fast to our view that interest rates are most likely to remain at our around current levels for the time being.

While not capturing the headlines, we believe developments in Japan warrant consideration. In response to the first credible signs of inflation in close to 40 years, the Bank of Japan made further (modest) tweaks to their Yield Curve Control (YCC) programme, allowing the yield on the 10-year government bond to trade more freely within a defined range. While we know the goal of the BoJ is to eventually extricate themselves from YCC altogether, the sheer value of assets at stake means that the transition will occur gradually. Exporters are taking advantage of a depreciating yen in the short term, but the greater risk is higher local bond yields attracting capital back to Japan, with implications for bond markets globally. An unwinding of the yen carry trade becomes more likely with each month that inflation persists above target and would be influential on interest rates across developed markets.

Credit spreads were resilient in October against an uncertain backdrop. Credit markets seem to be looking through the geopolitical tensions and short-term market noise and focusing on strong corporate fundamentals. Indeed, primary issuance markets have been lively for several months, with October seeing the strongest activity so far this year. We cannot rule out further spread widening as the current economic cycle matures, but we are confident that the investment grade segment of the market is well placed to navigate near-term challenges. Strong coupon income will remain the foundation of the return profile over time.