DAINTREE
CORE INCOME TRUST (NZD)
MONTHLY FACTSHEET: 29 February 2024

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

- High coupon receipts, narrowing of credit spreads and overlay strategies all drove returns for the month as credit markets continued their strong start to the year.
- Duration positioning lagged somewhat, though other overlay strategies more than offset this.
- The Fund selectively engaged in new issuance, with a wide choice of paper allowing us to exercise discretion where warranted.

Key Statistics

Modified Duration (Yrs)	0.33
Spread Duration (Yrs)	2.72
Yield to Maturity (%)	8.06
Running Yield (%)	7.54
Average Credit Quality	A-
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 Core Income Trust (NZD Unit Class)
Funds under management	NZD816m
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 + 0.05% pa expense recovery
Buy/sell spread	+0.00% / -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:

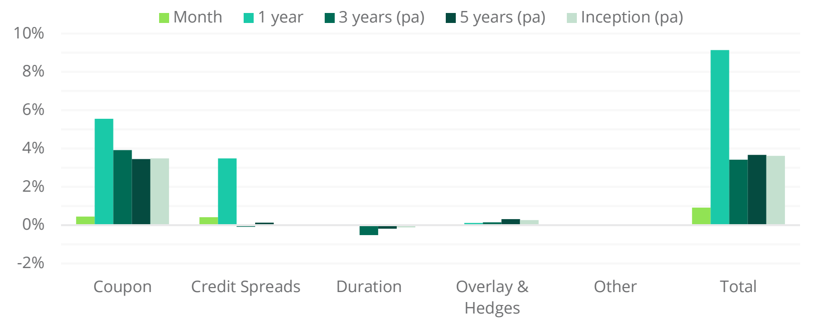
◊ FNZ ◊ Aegis ◊ NZXWT

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Inception (% pa)
Fund (gross)	0.91	2.62	9.14	3.42	3.66	3.62
Fund (net)	0.87	2.48	8.59	2.91	3.15	3.09
Distribution (net)	0.33	1.02	3.52	2.20	2.02	2.13
Growth (net)	0.53	1.46	5.06	0.70	1.12	0.96
RBNZ Cash Rate	0.44	1.38	5.54	2.92	2.05	2.02
Excess Return	0.43	1.10	3.04	-0.01	1.09	1.08

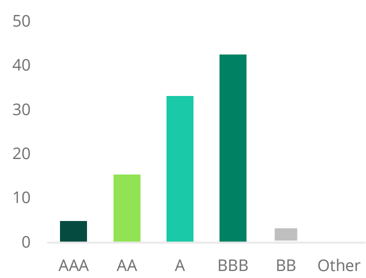
Note: Performance inception is 1 June 2018. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

Performance Contribution (Pre Fees)

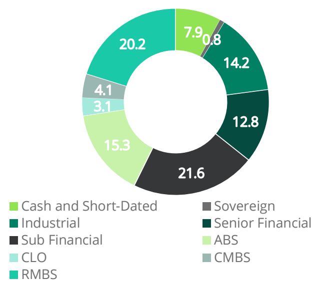


Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

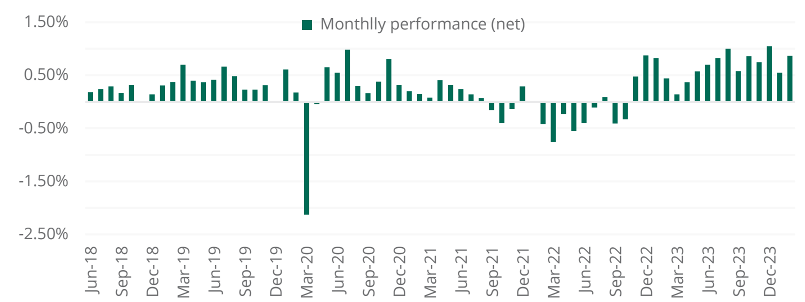
Rating Exposure (%)



Sector Exposure (%)

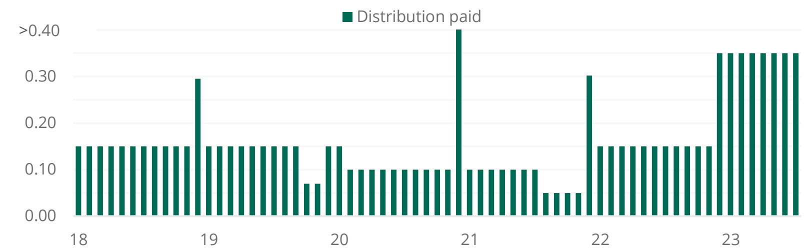


Monthly Performance



Cash Income

The Fund distributed 0.35 cents per unit in February.



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Fund Review

The Core Income Trust NZD returned 0.87% for the month, net of fees. The Fund's performance was driven by coupon income with support from credit spreads, with all major sub-sectors contributing to the positive tone. The Fund retains a small positive duration position, which modestly tempered the overall result as rates finished February slightly higher, but other overlay strategies more than made up for this.

There are strong technical and fundamental tailwinds for credit markets in the short term. Active issuers in the corporate bond market reported generally solid results during reporting season, with investors rewarding these results with tighter spreads.

The Fund selectively engaged in new issuance as activity materially increased, with such a wide variety of choice that some discretion was prudent. Portfolio positioning and cash levels are reflective of an expectation that momentum in investment grade credit markets can be maintained into 2024.

Outlook

This economic cycle is like no other and has defied all historical reference to date. February saw significant recalibration of the expected trajectory of interest rates this year, bolstering our view (put forward in January) that the amount of easing priced for 2024 may be excessive. Despite the subsequent repricing, we continue to see the risks for the timing of the easing cycle in the US as skewed to a later than expected start.

Leading indicators point to slowing growth but not a collapse. Indeed, the latest data from Japan and the UK confirmed the start of technical recessions (being two consecutive quarters of negative GDP), despite the Japanese stock market breaking 34-year records and rising to an all-time high. While most economies struggle to wring inflation out of services prices, Japanese investors have cautiously started to believe that the deflation dragon may have finally been slain for good.

We are most confident about the US economy relative to other developed markets, primarily because they are almost alone globally in maintaining high levels of productivity with strong employment growth.

In contrast, Australia, Europe, and the UK are struggling to drive meaningful economic efficiency gains. These countries also have high immigration rates, bolstering headline GDP at the expense of anaemic, or recessionary, per capita outcomes.

Australian employment data was uncharacteristically weak in January. On a seasonally adjusted basis, the unemployment rate rose to 4.1%. The key to the employment data in coming months is not just the level of unemployment, but the ability of the economy to continue producing jobs as the population grows. On this measure, the January data showed a small increase despite the rising unemployment figure.

One factor closely linked to employment is residential housing prices, which have continued their strong start to 2024. While the proportion of residential borrowers behind in payments is rising, it is still below pre-pandemic levels and well within manageable ranges for our well-capitalised banks.

If the macro environment supports a later start to easing cycles, we think this bodes well for credit markets. Spreads have largely returned to average levels in Australia, but in some non-AUD markets they have tightened noticeably and further highlighted the attractiveness of local corporate bonds from both fundamental and valuation perspectives.

We have noted in recent months that credit markets seem to be looking through the geopolitical tensions and short-term market noise, but 2024 will present a range of challenges including a growing refinancing wall, for which elevated interest rates pose a distinct risk. Should the availability of capital be constrained as this refinancing wave gathers pace, we cannot rule out some spread widening as the current economic cycle matures. Ironically, capital is plentiful for issuers right now, which may in itself provide a break on spread tightening as issuers take advantage of the conditions. Daintree retains the view that the investment grade segment of the credit market is well placed to navigate near-term challenges and strong coupon income will remain the foundation of the return profile over time.