# DAINTREE HIGH INCOME TRUST

## MONTHLY FACTSHEET: 29 February 2024

## 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 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)** | 0.61 |
| **Spread Duration (Yrs)** | 2.20 |
| **Yield to Maturity (%)** | 8.67 |
| **Running Yield (%)** | 7.94 |
| **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:

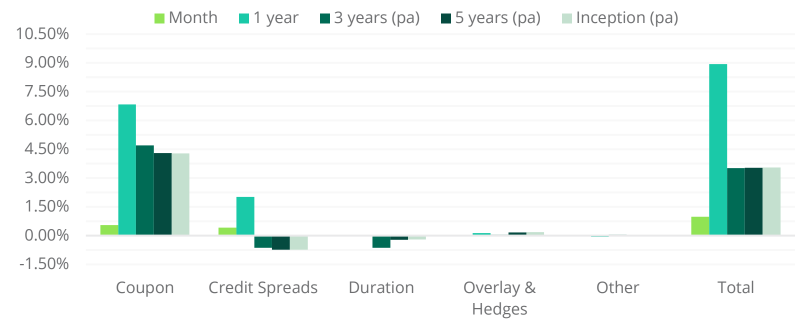
- BT Panorama
- HUB24
- Colonial FirstWrap
- Macquarie Wrap
- Netwealth

## Performance & Analytics

| | Month (%) | Quarter (%) | 1 Year (%) | 3 Years (% pa) | 5 Years (% pa) | Inception (% pa) |
|---|---|---|---|---|---|---|
| Fund (gross) | 0.98 | 2.95 | 8.93 | 3.52 | 3.54 | 3.55 |
| Fund (net) | 0.92 | 2.77 | 8.24 | 2.79 | 2.80 | 2.81 |
| Distribution (net) | 0.00 | 1.42 | 4.38 | 4.74 | 3.95 | 3.85 |
| Growth (net) | 0.92 | 1.35 | 3.85 | -1.96 | -1.15 | -1.03 |
| RBA Cash Rate | 0.35 | 1.09 | 4.15 | 2.00 | 1.45 | 1.45 |
| Excess Return | 0.57 | 1.68 | 4.08 | 0.79 | 1.35 | 1.36 |

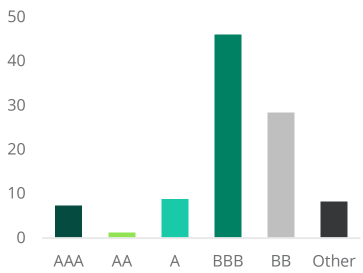
Note: Performance inception is 1 November 2018. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the difference between total return and ex-distribution unit price return. Past performance is not a reliable indicator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

### Performance Contribution (Pre-Fees)

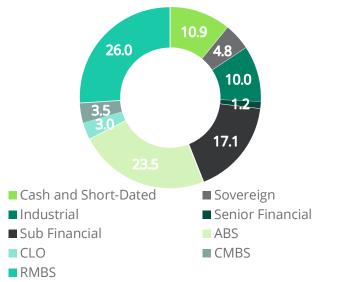



Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

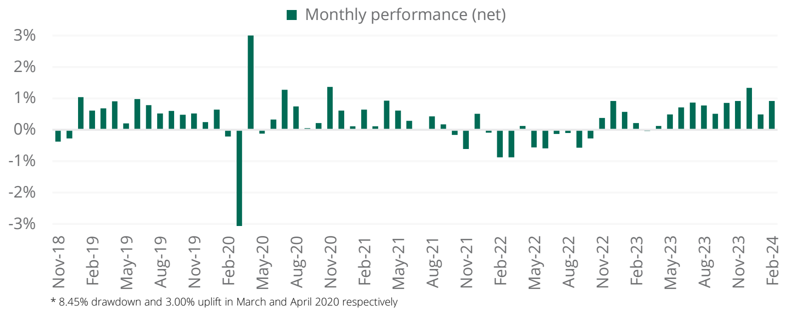
### Rating Exposure (%)




### Sector Exposure (%)



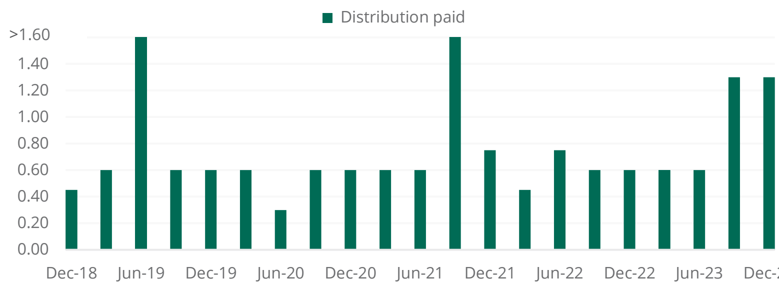

### Monthly Performance




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

### Cash Income

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




*Proudly supporting:*

## Fund Review

The High Income Trust returned 0.92% 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. While endless column inches opine about the timing and trajectory of interest rates, it is just as possible that 2024 sees little, if any, movement in interest rates across the developed world.

Leading indicators point to slowing growth but not a collapse. There's still risk of recession, but a degree of comfort exists because there is significant headroom to cut rates should the need arise.

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.

Chinese equity markets fell heavily in January in a move that is emblematic of the deeper structural issues that will continue to face the country over the coming decade. Policymakers are extremely reluctant to commit to major stimulus measures, fully cognisant of a populace that is still coming to terms with major ructions in property and employment markets.

Fiscal reticence in China is in stark contrast to its chief geopolitical rival, the United States. Heading into an election year stateside, we find it near enough to a certainty that any semblance of fiscal rectitude will be abandoned in the perennial battle to woo swinging voters. Simply speaking, this means government indebtedness is likely to accelerate higher, interest rates will remain higher for longer, and inflation will likely linger at rates above those desired.

Thus, as we posited earlier, the path of least resistance may be to do nothing with interest rates for the foreseeable future. If this scenario plays out, we are positive about the outlook for credit. Spreads remain at higher-than-average levels in Australia, but in some 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 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. 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.

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