DAINTREE HIGH INCOME TRUST (NZD)

MONTHLY FACTSHEET: 31 March 2024

Daintree CAPITAL

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.

Zenith APPROVED · Investment Grade · 1ST ERIG INDEX

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

- 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.
- The fund selectively engaged in new issuance, with a focus on offshore financials as well as residential mortgage-backed securities and asset-backed securities.

Key Statistics

Modified Duration (Yrs)	0.59
Spread Duration (Yrs)	2.43
Yield to Maturity (%)	9.62
Running Yield (%)	9.10
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 (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	0.70% 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	New Zealand Dollar

Platforms

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

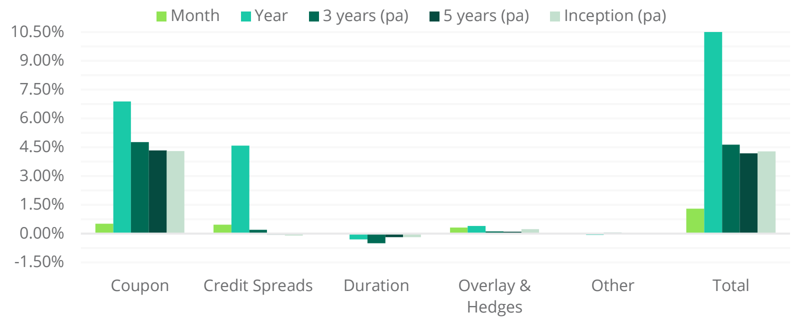
◊ FNZ ◊ Aegis ◊ NZXWT

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Inception (% pa)
Fund (gross)	1.30	2.99	11.50	4.63	4.19	4.29
Fund (net)	1.24	2.81	10.81	3.90	3.45	3.56
Distribution (net)	1.29	1.31	4.93	3.95	3.33	3.30
Growth (net)	-0.05	1.50	5.88	-0.05	0.12	0.25
RBNZ Cash Rate	0.47	1.38	5.61	3.07	2.12	2.03
Excess Return	0.77	1.43	5.20	0.84	1.33	1.52

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.

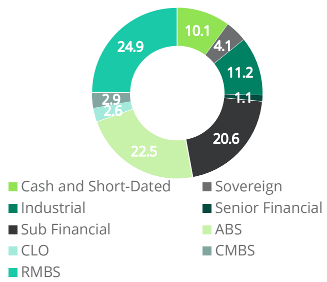
Performance Contribution (Pre Fees)



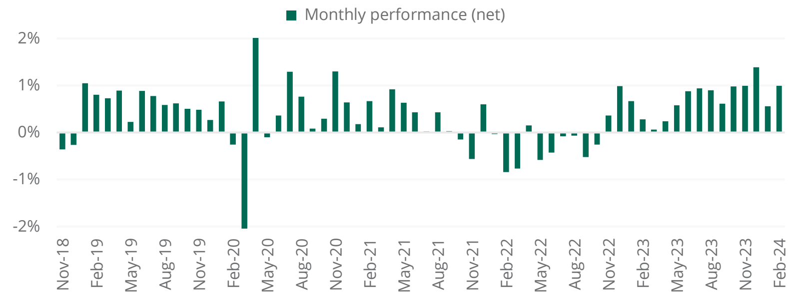
Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

Rating Exposure (%)

Sector Exposure (%)



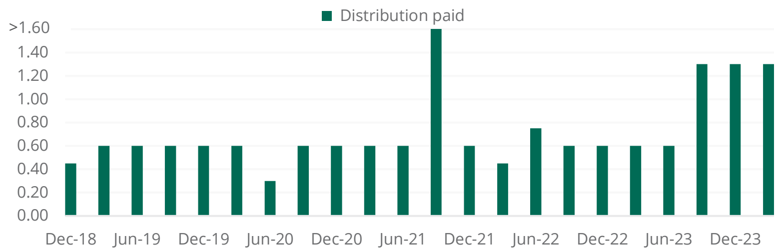
Monthly Performance



* 8.34% drawdown and 3.08% uplift in March and April 2020 respectively

Cash Income

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



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Fund Review

The High Income Trust NZD returned 1.24% 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. Overlay positions made a noticeable positive contribution again in March after solid results in February.

There are strong technical and fundamental tailwinds for credit markets in the short term. Active issuers in the corporate bond market have been attracting strong bids, but deal activity moderated somewhat in March.

The fund selectively engaged in new issuance, with a focus on financials offered by non-Australian domiciled issuers, as well as residential and asset-backed securities. Portfolio positioning and cash levels are reflective of an expectation that momentum in investment grade credit markets can be maintained into 2024.

Outlook

Recalibration of the expected trajectory for interest rates this year continued during March, driven by economic data that exceeded expectations. The vast majority of investors, analysts, commentators, pundits, and taxi drivers believe that interest rates will be cut at some stage in developed markets, but we hold fast to our view that they simply may not move from current levels this year. Because of generally high valuations across risk assets, there is concern that current multiples may be at risk of contraction without rate relief. We are less concerned in credit markets, however, where we view spreads as tight but fair.

Against this reasonably positive tone in markets, geopolitical uncertainty continues to rise. It is notoriously difficult to translate developments in this sphere into market impacts, but there can be no denying that the risks of unintended consequences are rising as the war in Gaza metastasises into a wider regional conflict. From an economic perspective, the challenges in the Middle East are translating into snarled supply chains given the inability of Western nations to secure the passage through the Suez Canal, and also on oil prices given the importance of the region in terms of both production and transport. A strongly rising oil price has the potential to interrupt disinflationary tailwinds on which the expected interest rate path is so heavily reliant.

The Bank of Japan took the momentous step of concluding its negative interest rate policy, along with a slate of measures aimed at slowly withdrawing accommodation that has been in place for close to two decades. The shift back to a zero percent cash rate from -0.1% was modest in gross terms, but the symbolism of the BoJ having sufficient confidence that inflation has rebounded to a desired level was meaningful. This confidence has been particularly evident in Japanese equities, where the Nikkei index has hit record highs in recent months. Coupled with a weak yen, Japanese exporters have been the biggest beneficiaries.

Australian data released last month included the Q4 GDP release, minutes of the latest RBA meeting and labour force estimates for March. The national accounts showed an economy losing momentum, particularly within the consumer and construction sectors. After a better January the consumer again struggled in nominal terms. On a more positive note, the labour market looks less alarming. After the February numbers, the key message is that the kick up in unemployment in the last few months reflected seasonal adjustment problems rather than a rapid deterioration in the labour market. That said, trend employment growth is currently running around 20k per month. To stabilise unemployment the required rate is nearer to 40k. Meanwhile, the market reaction to the RBA minutes suggested a belief that the committee has become less hawkish but maintained maximum flexibility by not ruling anything in or out regarding the future path of rates.

If the macro environment requires interest rates to hold steady for the foreseeable future, 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. This further highlights 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. Ironically, capital is plentiful for issuers right now, which may slow spread tightening as issuers take advantage of the conditions resulting increased in supply. 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.