DAINTREE HIGH INCOME TRUST

MONTHLY FACTSHEET: 31 May 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

- Coupon income continues to drive fund performance, again with some assistance from tighter credit spreads
- Portfolio positioning and cash levels are reflective of an expectation that momentum in investment grade credit markets can be maintained over the coming months

Key Statistics

Modified Duration (Yrs)	0.58
Spread Duration (Yrs)	2.36
Yield to Maturity (%)	8.35
Running Yield (%)	7.62
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
Funds under management	AUD113m
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	$25,000
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

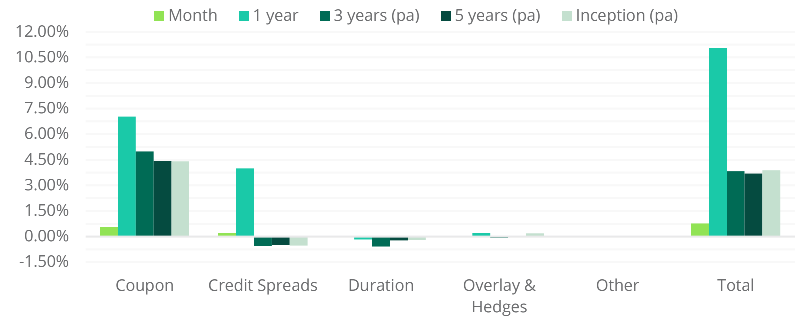
Signatory of: PRI Principles for Responsible Investment

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Inception (% pa)
Fund (gross)	0.76	2.69	11.07	3.82	3.69	3.89
Fund (net)	0.69	2.50	10.32	3.07	2.94	3.14
Distribution (net)	0.00	1.40	5.21	5.01	4.11	3.93
Growth (net)	0.69	1.10	5.11	-1.94	-1.17	-0.79
RBA Cash Rate	0.36	1.45	4.29	2.24	1.55	1.54
Excess Return	0.34	1.05	6.03	0.83	1.39	1.60

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.

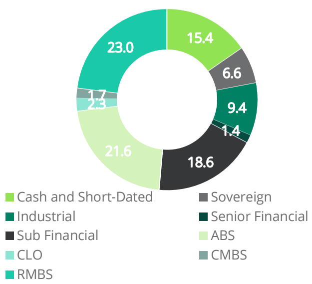
Performance Contribution (Pre-Fees)



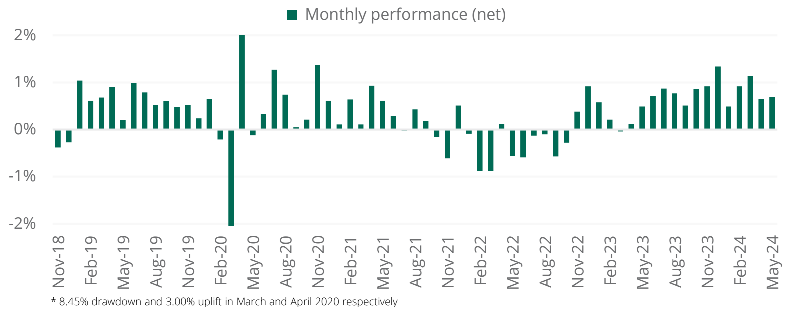
Note: Overlay strategies use derivatives to ensure that the Fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

Rating Exposure (%)

Sector Exposure (%)



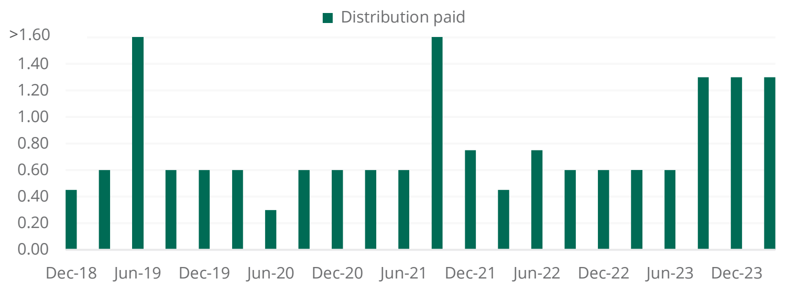
Monthly Performance



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

Cash Income

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



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Fund Review

The High Income Trust returned 0.69% for the month, net of fees. The primary performance driver was coupon income, while credit spreads also contributed positively. Overlay positions were neutral for the month.

The overall tone in credit remains constructive, supported by a solid technical picture. Demand for investment grade bonds has been strong all year, and new issuance markets have capitalised with good volumes at reasonable prices.

The fund selectively engaged in new issuance, but also continued to seek trades that optimised future income potential, taking advantage of higher base rates. Portfolio positioning and cash levels are reflective of an expectation that momentum in investment grade credit markets can be maintained over the coming months.

Outlook

Economic data generally disappointed in May, reviving hopes that the US easing cycle will begin this year. Conditions necessary to allow cuts to start are taking longer to eventuate, but last month it became evident that negative surprises were being treated as positive from the perspective of future interest rate levels. However, because of generally high valuations across risk assets, we remain of the view that markets may have already priced much of the purported easing cycle, leaving investors vulnerable to a "sell the fact" scenario once rates begin to moderate. We are less concerned about credit markets, however, where we view spreads as tight but fair.

Geopolitical uncertainty remains an unpredictable wildcard. But even here, several factors have snubbed the accepted wisdom about how these events might impact markets. For example, oil prices were weak again in May despite the lingering threat of supply issues and aggression from Ukraine attacking Russian terrestrial energy infrastructure. Competing regional blocs are finding less and less common ground, coinciding with a deterioration in trust among nations, especially those subject to Western sanctions. These restrictions of access to global financial networks are drawing the excluded few closer together as they seek to circumvent these roadblocks with their own networks. Rising trade disputes represent another frontier of challenge in the geopolitical sphere with implications for economic activity.

Indian elections were held in May, with the scope (encompassing more than 800m people) and duration (run over four weeks) creating some localised financial volatility. Results suggest Prime Minister Modi will win a third term despite a weaker than expected showing for his party. Meanwhile, an early election has been called in the UK, where the main issues of debate are immigration, the UK's relationship with the EU and the performance of the ruling Conservative Party which is polling poorly. When it comes to elections this year, all roads still lead to the United States in November, where the Republican candidate recently received a guilty verdict and there is still five months until polling day!

The Australian Federal Budget was handed down, headlined by a second surplus in as many years, while promising relief for households without adding to the inflationary impulse. Reactions were mixed, but absent from the document was any meaningful reform, save for a priorly announced redistribution of tax cuts. We view these as being neither inflationary or disinflationary in the short term, and the Budget overall doing little to tame underlying cost-of-living pressures.

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 brake 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.