DAINTREE CORE INCOME FUND (MANAGED FUND) (CODE: ECOR)

MONTHLY FACTSHEET: 31 October 2023

Fund Description

ECOR is an absolute return, cash plus, investment grade bond strategy. ECOR 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 ECOR 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. ECOR seeks to produce a return (net of fees) that exceeds the RBA Cash Rate by 1.50-2.00% p.a. within a cycle.

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)	-0.01
Yield to Maturity (%)	6.88
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 reflects 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

Management costs	0.45% (incl of GST & RITC)
Inception date	22 November 2019

Investment manager

Daintree Capital, the investment manager of ECOR, is a boutique investment manager specialising in the construction of absolute return, income generating portfolios. The firm was nominated as a Finalist for the Money Management Fund Manager of the Year Award in the Emerging Manager category for 2019, and ECOR has a 'Recommended' rating from Lonsec and Zenith. Daintree Capital is also a signatory to the United Nations Principles for Responsible Investment.

Platforms

The Daintree Core Income Fund (Managed Fund) is available on the following platforms:

- Netwealth
- PowerWrap
- Wealth02 / uXchange

Recommended Lonsec Research

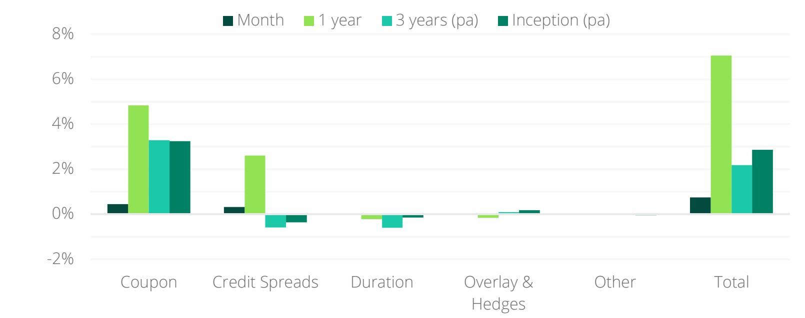
Zenith RECOMMENDED

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	Inception (% pa)
Daintree Core Income Fund (ECOR)	0.66	2.02	6.60	1.66	1.62
Daintree Core Income Trust	0.70	2.03	6.52	1.67	2.33
RBA Cash Rate	0.35	1.04	3.71	1.52	1.31
Excess Return	0.31	0.98	2.89	0.14	0.31

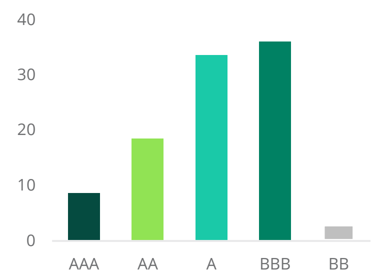
Note: Inception date for ECOR was 22 November 2019. Performance shown above is net of fees. The Fund has identical investments to Daintree Core Income Trust; however performance differences can be impacted by the timing of the distributions. Inception date for the underlying Daintree Core Income Trust was 1 July 2017, and this history is shown prior to the inception of ECOR to provide a longer-term view of Fund performance. Fund returns are calculated using net asset value per unit of the underlying fund at the start and end of the specified period and do not reflect the brokerage or the bid/ask spread that investors incur when buying and selling units on the exchange.

Performance Contribution

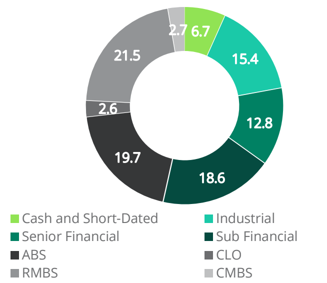


Source: Daintree Capital. As at 31 October 2023.
Month, 1 year, 3 year and inception performance figures reflect the performance of the Daintree Core Income Trust.

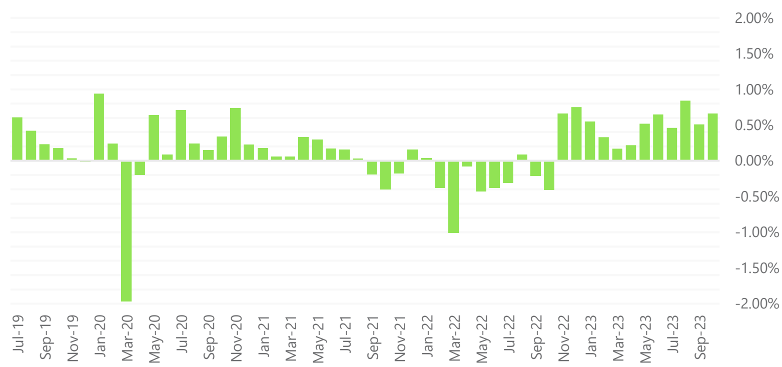
Rating Exposure (%)



Sector Exposure (%)



Monthly Performance



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Fund Review

ECOR returned 0.66% 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.

Signatory of:

PRI Principles for Responsible Investment