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

MONTHLY FACTSHEET: 31 July 2024

Fund Description

The Daintree Core Income Fund (Managed Fund) ('ECOR' or 'the Fund') 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

- Coupon income drove Fund performance, with assistance from tighter credit spreads and both yield curve and duration overlay positioning
- Current market volatility seems more reflective of positioning than macroeconomic fundamentals. We retain flexibility to nimbly respond to the evolving market environment

Key Statistics

Modified Duration (Yrs)	0.21
Yield to Maturity (%)	6.73
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

Platforms

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

- Netwealth
- PowerWrap
- Wealth02 / uXchange

Recommended
Lonsec Research

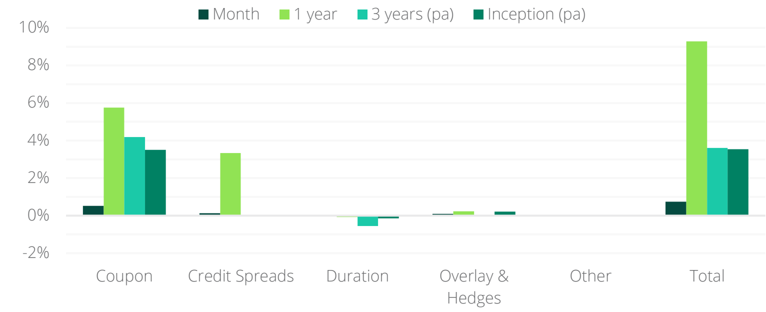
Zenith
RECOMMENDED

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	3 Years (% pa)	Inception (% pa)
Daintree Core Income Fund (ECOR)	0.67	1.82	8.63	3.05	3.08
Daintree Core Income Trust	0.69	1.82	8.73	3.08	3.00
RBA Cash Rate	0.37	1.10	4.38	2.60	2.00
Excess Return	0.30	0.72	4.25	0.45	1.08

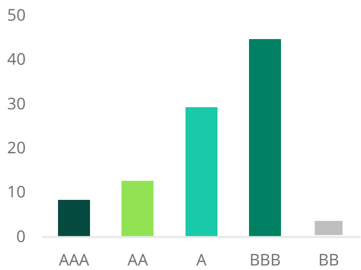
Note: Inception date for ECOR was 22 November 2019. Performance shown above is net of fees. The Fund has identical investments to Daintree Core Income Trust; however, performance differences can be impacted by the timing of the distributions. Inception date for the underlying Daintree Core Income Trust 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. Past performance is not a reliable indicator of future performance.

Performance Contribution

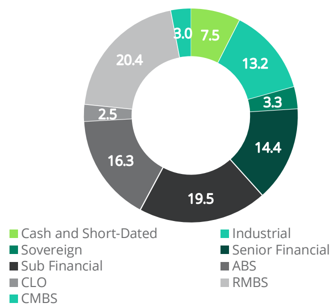


Source: Daintree Capital. As at 31 July 2024.
Month, 1 year, 3 year and inception performance figures reflect the performance of the Daintree Core Income Trust.

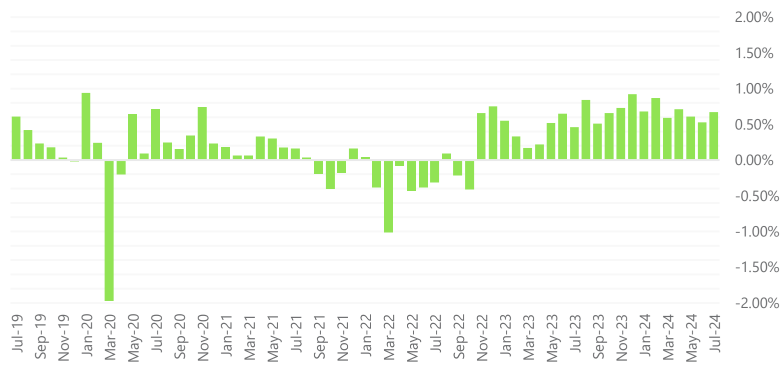
Rating Exposure (%)



Sector Exposure (%)



Monthly Performance



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Fund Review

ECOR returned 0.67% for the month net of fees. The primary performance driver was coupon income, but credit spreads and overlay positions also made meaningful contributions. Overlay positions around duration and curve shape were the big winners, courtesy of a late month narrative change across markets in which these views were expressed.

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. Credit markets can often take time to assess changing market conditions, so the late month shift in market tone in July has not yet impacted spreads.

The Fund selectively engaged in new issuance, mostly in securitised asset sectors, but also continued to seek trades to optimise future income potential. Portfolio positioning and cash levels are reflective of a retention of some flexibility to be able to nimbly respond to the evolving market environment.

Outlook

Economic data continued to print with a downside bias relative to expectations in July, but the growing breadth and severity of the disappointment led to risk assets catching down late in the month. We had noted previously that with northern hemisphere markets in summer mode and likely lacking liquidity, narrative shifts could have an outsized effect on performance. As rates traders rushed to reorient their bets towards more (and quicker) rate cuts, we still believe that any benefits from future rate cuts are already largely priced in. We think that this is the most apt description of credit markets, where we view spreads as full but fair. The speed at which the economic narrative has shifted in recent weeks reveals an underlying vulnerability that will require close monitoring, especially as risk assets have arguably been unwilling to engage in much introspection so far this year.

Nowhere has the narrative shifted quicker between extremes than in Australia. Whereas just one month ago we wrote in these pages about the very real chance of an interest rate increase by December as core inflation remained stubbornly anchored above target, the release of quarterly CPI data late in July undershot expectations and soothed anxious rates watchers. It also spurred traders to boldly abandon their indifference and price in up to three rate cuts by February 2025. While it is tempting to use recent data to rationalise a change in stance, we stick firm to our view that the path of least resistance for the RBA will be to remain on hold and let the current settings manifest across the economy. Weak new dwelling approvals are one example of these settings impacting activity (such as through building costs), even if it exacerbates inflationary pressures elsewhere (such as increasing rental costs).

Investment grade credit continues to benefit from an advantageous mix of strong fundamental and technical factors. On the fundamental side, issuer balance sheets are in good shape and the consumer has been resilient, supporting earnings growth. In terms of market technicals, flows into credit and fixed income funds have been positive all year, while new issuance has been priced with reasonable concessions to ensure robust demand from both professional and private investors. Daintree is confident that the investment grade segment of the credit market is well placed to navigate changing market conditions, noting that the near-term tone has changed on the back of a growing prevalence of disappointing macro data. Strong coupon income will help to dampen volatility and remain the foundation of the return profile over time.

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