eInvest Core Income Fund (Managed Fund)
CODE: ECOR
MONTHLY REPORT SEPTEMBER 2021

	Month (%)	Quarter (%)	1 Year (%)	Since Inception^ (% p.a.)
eInvest Core Income Fund (ECOR)	-0.19	0.01	2.43	1.87
Daintree Core Income Trust	-0.18	-0.01	2.43	2.78
RBA Cash Rate	0.01	0.03	0.11	0.26
Excess Return	**-0.20**	**-0.02**	**2.32**	**1.61**

^ Inception date for ECOR was 22 November 2019 and inception date for the underlying Daintree Core Income Trust was 1 July 2017. Performance shown above are net of fees. To give a long-term view of the fund performance in the asset class, we have shown the returns of the Daintree Core Income Trust. The Trust has identical investments. 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.

eInvest Core Income Fund

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

- Wider credit spreads detracted from performance in September, with weakness in the financials and RMBS/ABS the main the drivers
- Higher bond yields also detracted, although this was mitigated by the low duration stance of the fund

Key Statistics

Modified Duration (years)
0.45

Portfolio Yield (%)
1.53

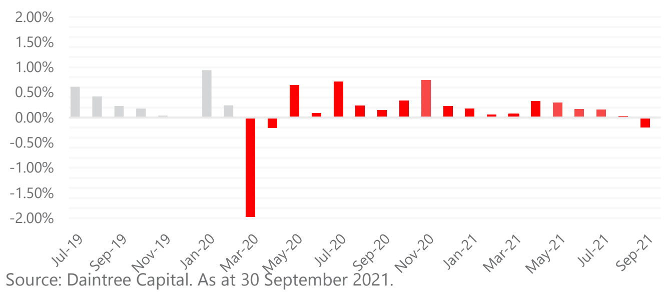
Portfolio ESG Score (MSCI)
A

Average Credit Quality
A

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 Independent Investment Research (IIR). Daintree Capital is also a signatory to the United Nations Principles for Responsible Investment.

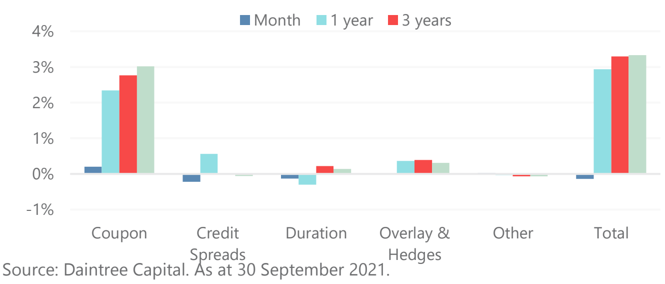
Monthly Performance



Source: Daintree Capital. As at 30 September 2021.

The above figures show the monthly performance of the Daintree Core Income Trust from January to October 2019. The eInvest Core Income Fund holds the same investments. After October 2019 the performance of ECOR is shown.

Performance Contributions



Source: Daintree Capital. As at 30 September 2021.

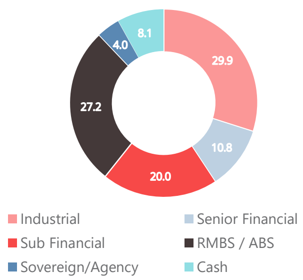
Month, 1 year and inception performance figures reflect the performance of the Daintree Core Income Fund

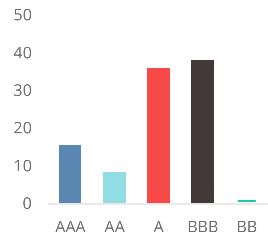
Fund Facts

Management Cost
0.45% (incl of GST & RITC)

Inception Date
22 November 2019

Rating and Sector Exposure





Level 30, 88 Phillip Street Sydney NSW 2000
1300 088 660
hello@einvest.com.au
www.einvest.com.au

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Fund Review

ECOR returned -0.19% for the month bringing the rolling twelve-month performance to 2.43% net of fees. During the month both duration and credit spreads were negative contributors which more than offset coupon income. Most sectors in the portfolio were negative but RMBS/ABS and subordinated financials were the largest negative contributors. Broader Australian credit spreads were very mixed across sectors and tenors. Energy names performed better than most on the back of higher energy prices. The fund continues to have a modest interest rate duration positioning at 0.45 years.

RMBS/ABS issuance was healthy with seven new deals pricing during the month totaling $4.3 billion including the first RMBS deal from a major bank since 2020 as Westpac priced a new deal. Total issuance by corporates and financials was $3.7 billion during the month. Issuance continues to remain below maturity levels with net issuance at -$22.8b year to date. This strong technical has helped overall spreads remain relatively stable despite weakness seen in some offshore markets. We participated in several new deals during the month including Woolworth SLB 2027, Zip 2021-2, Allied 2021-1, Shopping Centre Australia 2029, Dexus Property 2028 and Electranet 2028.

Outlook

Much airtime is devoted to the September seasonal weakness that is often seen across financial markets. September 2021 once again provided confirmation to those who take views on such things. At its lows on September 29, the benchmark ASX200 index had reverted to levels last seen in June. This weakness in equities was driven by moves in government bond markets that were the most dramatic seen since February this year - government bond prices fell, and their yields re-traced almost two months of moves lower. The Australian benchmark 10-year government bond maturing in November 2031 saw its yield move more than 40 basis points higher from its low of 1.0785 on August 20, ending September at 1.49. Holders of this bond will now need to earn more than 2 and a half years of the 1% coupon return on offer to offset this latest loss of value. Another illustration of the perils of excessive interest rate risk exposure in bond portfolios.

Weakness was not confined to government bonds though, as credit spreads also moved wider. Volatility in credit markets, however, remains much lower than volatility in either government bonds or equities. For example, credit spreads in Australia were between zero and 5 basis points wider on average, a much lesser move than the sorts of moves seen in government bond markets. Offshore credit spreads moved a little more but importantly, we see credit as being supported by low net issuance and a continued hunt for relatively safe income on the part of investors.

As always, the key question for financial markets is how the macroeconomic backdrop will evolve. Will risk markets resume their march higher? Concerns abound: Covid in the northern hemisphere winter; the recurring US debt ceiling saga; falling Chinese growth amid tighter fiscal policy in both China and the US; and policy normalisation on the part of several global central banks as they come to the realization that global inflation may not be as transitory as they first thought. We expect markets to continue pricing a 'living with Covid' status quo which will see the pricing of downside tail risks from this source diminishing over time. We also expect that, once again, the debt ceiling will be lifted in the US and a crisis averted. What really matters though is the distribution of risks around these views. With respect to politics, for example, human nature can and has led to unexpected outcomes throughout history. Covid presents a range of issues to consider too - risks include the potential for break-through infections to accelerate amid falling vaccine efficacy, as well as the potential for long Covid to be revealed as a significant public health issue. We feel that given the elevated pricing of some markets (US equities in particular) the potential impact of the major risk factors is significant now.

When we add central bank policy normalisation to the mix, the clouds darken further. Even though recent central bank speeches have fallen on the dovish side and managed to appease markets, each speech that is successful in this regard heightens the bar for future communications. Eventually, market expectations of central banks will be sufficiently dovish that a disappointment will register, or alternatively the credibility of a consistently dovish stance will be bought into question by the data flow. Inflation is already very elevated, and the yield curve steepening seen in September may mark a new phase for bond markets on this issue. We feel that policy makers are ushering in a period of increased uncertainty in markets, whether they want to or not. Our view on inflation has evolved too, and this informs our view on central banks. Is it sensible, for example, to expect shipping costs to fall? Shipping capacity constraints are already prompting companies to increase precautionary inventories, which will in turn increase these shipping-related cost pressures further. Feedback loops like this turn transitory outcomes into long-lived ones in the absence of a policy response. On the supply side, new capacity in both shipping and ports takes years to develop and environmental regulations will increase the costs of such upgrades. Moving from shipping to the consumer, we wonder what happens if Covid does remain under control and travel picks up just as commodity prices (notably oil) are accelerating? Increased services prices beckon at a time when supply chain pressures remain high.

The balance of risks with respect to inflation seems clear and the required policy response is clear as well. What is unclear is the willingness of central banks to cause the sort of market disruption that an accelerated pace of tightening will cause. The problem is that a market correction will be forthcoming anyway if central banks do not react appropriately to incoming data.

We are positioning our portfolios defensively given the particularly uncertain backdrop. Central bank tapering is well-priced by markets, but we watch real yields in the longer-end of the US curve which have risen sharply from record lows over the last two months. Further increases could hamper risk asset valuations. We see US wage growth as perhaps the single most important variable to focus on in the near-term, because the transient inflation narrative will come under further pressure if wages growth does not slow in the coming months in line with increased US labour supply (given the end to unemployment benefits earlier this month) and a decelerating US fiscal pulse. If wage growth cannot decelerate against this backdrop, we feel that treasury yields will see more upward pressure. The likelihood that both treasuries and equities fall in value together will increase. Investors who have not closely assessed the amount of duration risk they are holding in their defensive asset allocation should now address this as a priority.