



# Qualitative Fund Research

Daintree Core Income Trust

November 2017

## About the Manager

Daintree Capital Management (the Manager, Daintree) is a specialist manager of absolute return income portfolios, founded in January 2017 by two very experienced fund managers. The Manager believes that investment markets are not fully efficient as asset prices are sometimes driven by irrational influences. The Manager has provided a brief profile available [here](#).

Daintree Capital focuses on capital preservation as a cornerstone of their investment philosophy, which is designed to deliver reliable income streams. Combining this with an active, absolute return style; fixed income credit research; and a team that is strongly aligned with investors is key to maximising the identification of investment opportunities.

The Responsible Entity that has established this Trust has a detailed Governance policy. Daintree offers one fund at present, however intends to build on this over time. The current fund is an Australian

Unit Trust (AUT), with two unit types:

1. AUD units
2. Proposed NZD units with a 100% currency hedge to the New Zealand Dollar (NZD) in early 2018

The Manager's only fund as at the date of this report is the:

- [Daintree Core Income Trust](#)

The investment team consists of five members, all of whom have research functions with respect to the underlying investments. To allow the investment team to focus on the core activity of investing, Daintree has partnered with Perennial Value Management and NAB Asset Services to provide ancillary services such as administration, compliance and legal. Individual bios for the team at Daintree can be found [here](#).

## Using this Fund

**This is General Advice only and should be read in conjunction with the Disclaimers, Disclosures and Warnings at the end of this document.**

The Daintree Capital Core Income Trust ("the Trust" or "Core Income Trust") aims to provide investors with a higher income than generally available through term deposit and banking products. The Fund employs an 'absolute return', unconstrained process that combines capital preservation techniques to mitigate the loss of capital. As such the Fund will generally sit within the defensive component of a balanced portfolio, more specifically the global fixed interest sector.

The Fund has two mandates investors should focus on: providing a steady income stream with low volatility, and preserving capital across economic cycles.

The Fund is subject to market risk and movements (both positive and negative) from investment grade fixed interest securities. The Fund may enter into derivative contracts to manage market risks, such as FX forwards, interest rate derivatives, and credit default swaps. The Fund is suitable for investors with a minimum investment horizon of three years.

The Fund is an Australian Unit Trust (AUT) structure, however given the Fund's focus on generating a regular income for investors, the Manager intends to offer a NZD unit type, fully hedged to the NZD. The fully hedged NZD unit is considered an important feature when a fund intends to pay a regular income, particularly via monthly distributions.

Question	What the Manager says	What FundSource think						
<p>What are the Manager's assets under management - in total and in this Fund?</p>	<p>The inception date of the flagship Daintree Core Income Trust is 6 June 2017. Total assets under management as at 31 August 2017 was \$20.9m. Firm commitments from an existing client will increase the size of the Fund by at least \$10m by the end of November 2017.</p> <p>As at 31 August 2017:</p> <table border="0"> <tr> <td>Absolute Return Core Income</td> <td>\$</td> <td>20.1m</td> </tr> <tr> <td><b>TOTAL:</b></td> <td><b>\$</b></td> <td><b>20.1m</b></td> </tr> </table>	Absolute Return Core Income	\$	20.1m	<b>TOTAL:</b>	<b>\$</b>	<b>20.1m</b>	<p>Daintree commenced operations in January 2017 and is very much a new operation. Typically, this can raise several red flags around business sustainability and the ability for the investment team to work together. However, Daintree has developed relationships that assist in providing operational strength and sustainability, including entering into agreements with Perennial Value Management (PVM), who provide responsible entity services to Daintree, including distribution support. PVM was founded in 2000 and manages a total AU\$5.2 billion on behalf of institutional and retail clients via their suite of trust products as well as discrete portfolios.</p> <p>FundSource notes that two of PVM's Directors have invested significant personal money in to the Daintree Fund, alongside all the Daintree investment team, on the Funds commencement.</p> <p>The Daintree Absolute Return Core Income Fund commenced in June 2017. It has low funds under management (FUM) currently, to be expected given the short period of time since launching. The Fund is an Australian Unit Trust (AUT). To ensure the income focused Fund retains relevance for a New Zealand investor, the Manager intends to introduce a 100% currency hedge to the New Zealand dollar (NZD) unit option. This will assist in ensuring that monthly distributions are not impacted by Australian dollar (AUD) and NZD currency movements. FundSource will amend this report when the feature becomes available.</p>
Absolute Return Core Income	\$	20.1m						
<b>TOTAL:</b>	<b>\$</b>	<b>20.1m</b>						
<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>Mark Mitchell is ultimately accountable for fund performance. Mark has had over twenty years of industry experience specialising in both fixed income security analysis and portfolio management, in both Australia and the United States. Mark established Daintree Capital in January 2017 and prior to doing so, was the Head of Credit at Kapstream Capital. There, he was ultimately responsible for the development and implementation of the credit research process, as well as the majority of portfolio management, during a period where the fund grew to over \$10bn in assets under management.</p> <p>Justin Tyler is responsible for the management of duration, currency, and overlay strategies. Justin comes to Daintree after more than 17 years' experience in interest rates, inflation and currency at both Aberdeen Asset Management and Colonial First State. Justin and Mark spent four years of their career working together at Colonial First State, and at Daintree Capital they bring their complementary skill sets together once more.</p> <p>Mark and Justin are supported by a team of three analysts with an average of 13 years industry experience. Justin Tyler and</p>	<p>The Manager views this Fund as expressing the views of the entire investment team, rather than any one individual. However, Mitchell is ultimately accountable. Mitchell is the co-Portfolio Manager (PM) who focuses on credit and is supported by co-PM Tyler, who manages interest rate and currency decisions for the team. Three analysts, Wang, Lee, and Dunn support Mitchell and Tyler. Bios of the investment team are available <a href="#">here</a>.</p> <p>The investment team consider themselves to be equals. Incentive structures, bonuses and dividends from share ownership in Daintree are invested in the Fund. FundSource views this favourably as the outcome of incentives is directly linked to the Fund's performance and assists in mitigating the investment team from focusing on short term incentives.</p> <p>The team tenure at Daintree is less than one year. although Tyler has worked with Mitchell and Lee at previous employers. The Manager tenure would typically be a red flag, however the support of PVM has allowed the team to come together and be paid market salaries, reducing the risk of departure. Investors would need to</p>						

	<p>Simon Lee, Daintree Capital's quantitative analyst, spent six years working together at Aberdeen Asset Management before joining Daintree Capital.</p>	<p>carefully consider that taking on corporate risk is in line with their risk profile, as well as investment risk.</p> <p>The average industry experience of the team is strong and is not a result of one or two well tenured individuals. All investment team members have over 10 years industry experience. The background of each investment team member is solid. Notably Mitchell and Tyler are the two current shareholders in the company and Wang, Lee and Dunn all hold option agreements to own equity on meeting reasonable performance targets. FundSource highlights that equity ownership for the investment team is something some managers do better than others. Daintree appear to have implemented a well-considered equity incentive plan for all team members.</p>
<p>What objective is the Manager trying to achieve?</p>	<p>The objective of the Fund is to achieve a return of 1.5-2.0% above cash after fees over a rolling three year timeframe. Capital preservation is paramount and the fund therefore specifically aims to limit month to month volatility. Income generation is the other key focus of the fund with the aim of paying a stable monthly income stream.</p>	<p>The Manager clearly states the degree of outperformance an Investor can expect and by which the Manager can be held to account. FundSource views this positively, from a New Zealand context very few funds provide specific guidance on what excess performance an investor can expect.</p> <p>The cornerstone of Daintree's investment philosophy is the preservation of capital, which is heavily embedded in to the decision making <a href="#">process</a>. The Fund remains flexible as market conditions change, such as interest rates rising or falling through time. Accordingly, the total return to an investor will vary. Daintree's targeted return does not change and will remain at 1.5-2.0% pa above the RBA Cash Rate. Investors note that the RBA and RBNZ cash rates may differ over time. The Manager will not change its reference RBA Cash Rate starting point for the NZD unit, despite this unit being fully hedged in to NZD, although hedging the currency in NZD will achieve a similar result.</p> <p>To achieve the Fund's objective the Manager divides the portfolio into two components: the Core Portfolio and the Overlay Portfolio. FundSource notes that the Manager is benchmark unaware, however, Cash ranges from 0-100% allowing the Manager to actively manage the total portfolio risk by moving to cash and other defensive securities as risk/return characteristics vary.</p> <p>While the Fund is benchmark unaware, the Manager has nominated the RBA Cash Rate as the Fund's performance benchmark. FundSource notes the Investment Manager states it is globally unconstrained, and absolute return focused. The Manager's reports are available <a href="#">here</a>. Further performance information is available on the <a href="#">Disclose website</a>, and <a href="#">FundSource</a>.</p>

<p>What does the Manager invest your money into?</p>	<p>The Daintree Capital investment universe includes bank bills, commercial paper, term deposits, corporate bonds, bank capital securities, structured credit and investment grade sovereign bonds issued in developed markets. Currency, interest rate, inflation and credit derivatives are also used to mitigate risk and, to a lesser extent, to generate incremental additional returns.</p>	<p>The Fund is suitable for investors looking for an actively managed flexible global fixed interest fund. Capital preservation is central to the Manager's thinking, and remains flexible to address changes in global investment markets and economic views through the market cycle. While the Fund is unconstrained and absolute return focused, the Fund does not look take on significant risk to generate a return.</p> <p>All the assets are invested in the Core Portfolio, which is expected to account for ~75% Fund's returns. Physical ownership of investment grade bonds dominates the Core Portfolio. The Core Portfolio targets 150-200pa basis points above the RBA Cash Rate.</p> <p>The Overlay Portfolio will contribute ~25% of overall returns. The Overlay Portfolio is expected to generate 40-50bps p.a., which in effect covers most of the Manager basic fee for the Fund. Noting that cash can range from 0-100%.</p>
<p>What are the inherent risks imbedded in the Fund?</p>	<p>The inherent risks imbedded in the Fund are:</p> <ul style="list-style-type: none"> <li>• Credit risk: Rigorous portfolio construction and sensible limits on exposure sizes are the primary means of mitigating the risk that bond issuers do not pay interest payments in full or in a timely manner. Issuers or sectors are avoided if there is any doubt as to credit quality and exposures held in the Fund are well-diversified.</li> <li>• Interest rate risk: This refers to the effect that changes in the level or shape of yield curves have on the value of the portfolio. Portfolio exposure to interest rates is lower than for many other bond funds.</li> <li>• Currency risk is the potential for the value of the portfolio to suffer as a result of reductions in the value of foreign currencies relative to the New Zealand dollar. Currency risks in the Fund are fully hedged.</li> </ul> <p>At least 75% of the portfolio return is expected to come from the physical portfolio of assets with the remaining 25% coming from overlay strategies such as duration and curve, inflation, cross-market spreads and quantitative strategies. In addition to adding a small amount of value, overlay strategies are focused on mitigating the risks in the overall portfolio.</p>	<p>Bonds generally have an asymmetric payoff structure. Fixed interest typically exhibits limited upside and substantial, (and in some cases unlimited) downside. The Manager's fundamental approach to security selection and portfolio management approach is specifically aimed at providing consistent returns while mitigating downside risks.</p> <p>To manage risk in the portfolio the Manager will invest in a wide range of over 100 securities. In addition the Manager has also developed a set of comprehensive guidelines that set out minimum and maximum risk criteria for the fund. Some factors are hard, which means they cannot be breached, others are soft, which are used to warn the Manager of where risks are present in the portfolio, for which the Manager can take appropriate action.</p> <p>Managing risk in the portfolio is achieved using a mixture of off the shelf and proprietary systems, which includes a pre-trade compliance system. An external compliance team also conducts post trade compliance daily.</p> <p>When launched, the Manager will hedge out the NZD currency risk in the NZD unit class to ensure that currency does not impact monthly distributions. Hedging is carried out at the overall portfolio level, not at the security level.</p> <p>The Manager will use derivatives such as futures, options swaps, and credit default swaps (CDS) in the Overlay Portfolio. The use of derivatives can introduce leverage and increase risk. Risk is managed through a combination of proprietary in house quantitative risk systems and the judgment of the portfolio managers. FundSource highlights that all derivative positions are covered by cash. This may see cash</p>

		<p>positions appear to be high from time to time.</p>
<p>Why does the Manager believe the future prices of the Fund's investments will vary?</p>	<p>The Daintree Core Income Trust is colloquially referred to as a 'sleep-at-night' portfolio. The portfolio is constructed to deliver a steady income and minimal capital volatility. In the event that portfolio volatility does increase, however, this will most likely be a result of unexpected movements in credit spreads. Daintree Capital is fully aware of the potential for the value of financial assets to quickly become more volatile (and for the price of liquidity to increase sharply) in times of financial market stress, and the investment team have all had active experience in financial markets during such times. Extensive modelling has been undertaken in order to prepare for such events. The trade-off between the reliability and cost of various capital preservation strategies is an important component of the portfolio construction process.</p>	<p>The Fund has insufficient track record to enable a meaningful evaluation to be conducted, showing how the Managers decision making process translates to performance and risk management. FundSource notes the Manager has a capital preservation ethic that dictates the Manager looks to reduce volatility and market risk. FundSource notes part of the Manager's skill will be expressed in balancing risk management, for example downside protection, and delivering or outperforming the Fund's targeted return objective.</p> <p>The Core Portfolio represents ~75% of the Fund's return. The Core Portfolio typically comprises cash, deposits, fixed rate notes, floating rate securities, mortgage and asset backed securities. The allocation to the different securities types is predicated on the Manager's macroeconomic view and prevailing market conditions.</p> <p>The Overlay Portfolio has two core functions, mitigating risk and adding value. The Overlay Portfolio will incorporate directional views on duration, yield curves, inflation rates, spreads on cross market trades, and momentum based strategies. Each of these factors can vary significantly over time. FundSource believes the Manager's execution of the Overlay Portfolio, despite being a smaller component of the overall portfolio, will highlight the investment team's skill.</p> <p>Sensitivity to interest rates is one aspect that the Investment Manager looks at closely. This is, in part, managed through duration. The duration ranges between -1 to +3 years, which is significantly less than fixed interest benchmarks, reducing the Fund's sensitivity to any changes in interest rates globally. The Overlay Portfolio can be used to modify the duration of the Fund, to reflect the Manager's views and by using derivatives, which are not used in the Core Portfolio, other than currency hedging.</p>
<p>Why does the Manager believe you should give them your money rather than to someone else or to an inexpensive index fund?</p>	<p>There are many reasons why a passive approach is less than ideal in the fixed income space. For example, bond issuers will tend to issue bonds (which are then included in benchmarks) at times when their cost of funding is lowest, which is also likely the least sensible time for an investor to be increasing exposure. A passive approach to fixed income also compels investment in the bonds of issuers where significant concerns around credit quality may be present. In addition, given the large diverse universe of fixed income securities, indices tend to do a relatively poor job representing the investible universe. A benchmark unaware, active investment approach is therefore vastly superior to benchmark-aware strategies in the fixed</p>	<p>In comparison to bond indices the Fund is relatively concentrated, holding 80-100 companies, and 100-150 securities in the portfolio. This is slightly more concentrated than funds the Manager views as competitors, where the average number of securities is ~180 securities. The Manager's key objective is to avoid bonds that are subject to changes in quality.</p> <p>The FE Analytics NZMI Fixed Interest – Global sector consists of 40 funds. FundSource notes that four of the funds in this FE Analytics sector are income focused funds, as indicated by the fund's name.</p>

	<p>income sector. We believe Daintree Capital offers an attractive product in this space, backed by the proven experience of our investment professionals in managing to this type of approach over several market cycles. Daintree Capital offers a very low risk alternative in this sector and a compelling value proposition. In addition our fees are capped at 0.60% p.a with no performance fee, which is very competitive for an actively managed product.</p>	<p>FundSource notes that the Fund's performance history is too short to meaningfully evaluate. Having said that, the first few months performance has been competitive which is a good start. FundSource notes that the team, while relatively new has strong industry experience and the two PM's are very experienced, in the case of Mitchell seven years experience with a similar strategy. This builds some expectation, which FundSource will keenly review as the Fund's performance history develops.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>The investment process combines 'top-down' and 'bottom-up' elements:</p> <ul style="list-style-type: none"> <li>• The 'top-down' process yields a macroeconomic outlook, which Daintree Capital uses to determine broad portfolio risk characteristics such as interest rate exposure or broad credit exposure. The process also highlights sectors we wish to avoid in the stock selection process. Finally, markets that otherwise deviate significantly from fundamentally justified levels may be targets for overlay investment strategies that aim to profit from these deviations.</li> <li>• The portfolio alignment that results from our 'top-down' process is then the framework for unconstrained, 'bottom-up' stock selection within the developed-market universe. Various tools are used to search for risk-adjusted value on a number of different metrics, and potential candidates for inclusion in the portfolio are then subjected to rigorous fundamental research and relative value analysis.</li> </ul> <p>Turnover in the resulting portfolio is reasonably low, and daily monitoring ensures that the portfolio is always on track to meet the investment objective while taking the lowest possible amount of risk.</p>	<p>The Manager employs a mix of top down macroeconomic outputs and bottom-up security selection, in a structured active absolute return focused manner. The logical top down process adopted by the Manager sets the stage for the Fund's exposure to interest rates, duration and credit quality. Importantly the top down process can identify structural issues and sectoral issues, which the Manager will want to avoid investing in.</p> <p>The Core Portfolio focuses more on the underlying physical securities and how they relate to the top down macro view. The Overlay complements the Core portfolio, looking at the most efficient means of implementing directional views or mitigating portfolio risks. Both the Core and Overlay Portfolios incorporate the Managers top down process, with the Overlay being a top down decision.</p> <p>The Fund is not subject to benchmark relative constraints, the investment team have greater scope to incorporate the best trade ideas and position the portfolio in response to views on the prevailing market conditions. FundSource believes that Daintree's benchmark unaware approach to investing provides an opportunity for New Zealand investors to gain access to a portfolio of fixed income securities that is not easily replicated.</p> <p>The asset allocation of the Fund is monitored daily, and takes account of market movements, together with any inflows and outflows. Rebalancing occurs if actual allocations have deviated sufficiently from desired levels, and justifies trading cost.</p>
<p>Has the CIO/ Portfolio Manager personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>All members of the investment team are co-invested in the Fund on the same terms as external investors.</p>	<p>FundSource believes that the interests of investment personnel are better aligned to those of the investors, when investment personnel are significantly invested, and at the same fees.</p> <p>The investment team is eating its own cooking, with all team members invested in the Daintree AUT. This includes vesting variable compensation components, including variable salary (or bonuses) and shares in Daintree.</p>

<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>The portfolio management approach is benchmark unaware. Limits and guidelines with respect to absolute portfolio risk inform the portfolio construction process, as follows:</p> <p>Duration: -1 to +3 years          Minimum credit rating: BB-</p> <p>Maximum issuer exposure by credit rating;          AAA and AA-rated: 10%          A-rated: 5%          BBB-rated: 3%          BB-rated: 1%.</p> <p>Expected minimum av. credit quality: A-          Expected average credit quality: A+</p> <p>It should be noted that the portfolio allows sub-investment-grade exposure but there are no plans to purchase high yield assets. Relevant exposure limits are instead to ensure that the portfolio does not become a forced seller if an existing holding is downgraded below investment grade.</p>	<p>FundSource highlights the Fund is unconstrained, however it has a series of hard and soft limits have been embedded to assist in managing portfolio risk. Importantly, investors should consider if a benchmark unaware fund meets their needs, objectives and risk profile. The Fund does not aim to replicate any aspect of the benchmark, this includes the RBA Cash + benchmark.</p> <p>The Manager has left themselves some wriggle room should a security be downgraded below investment grade. Importantly this is not a strategy to allow the Fund to invest in structurally flawed sub-investment grade securities as their credit rating falls. FundSource notes that falling credit quality is not always a signal of long term structural problems of the issuer. Being a forced seller, in the event of declining credit quality, may not take account of a short-term structural turnaround and negatively impact the Fund's performance.</p> <p>The Fund's duration, targeted volatility and the credit quality of the underlying securities provide the principal guidance, combined with the Manager's macro views. The macro or top down views will determine which sectors, countries and regions look attractive. The Manager's macro views also dictate duration and credit quality.</p> <p>The foreign country risk can range between 0-40%. The Manager believes the actual allocation, over time, is unlikely to use the extremes of the range available. The Manager allows currency hedging to range between 95-105%, but expects all non-AUD investments to be fully hedged. Additionally, the Manager is seeking to provide New Zealand investors will a fully hedged AUD to NZD currency exposure, ensuring that currency movements between the AUD and NZD do not impact monthly distributions. FundSource will revise this report when that feature is made available.</p>
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>Daintree Capital has designed a product that we believe offers compelling value for investors, given both the experience of the investment team and also the quality of the overall offering (including the quality of services provided by Perennial Investment Management in terms of back-office support, legal, compliance, customer service and sales, etc.) Our headline fee of 0.60% undercuts key competitors and is negotiable for larger investments. The investment objective is quoted on an after-fee basis and Daintree Capital has undertaken extensive quantitative and qualitative research to justify an objective that is credible and repeatable.</p>	<p>The Fund's fee is 0.60%pa, this is below the average fee charged by the FE Analytics NZMI Fixed Interest New Zealand Dollar sector.</p> <p>FundSource also highlights the fee is lower than the two other FE Analytics peer group absolute return funds.</p>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<ul style="list-style-type: none"> <li>Perennial Investment Management provides support services such as back-office, legal, compliance,</li> </ul>	<p>The Investment Manager has embedded compliance and risk management systems in to the proprietary or customised off the</p>



	<p>customer service and sales, etc. Perennial has a very long operational track record in both Australia and New Zealand.</p> <ul style="list-style-type: none"> <li>• From a regulatory compliance perspective, Daintree has adopted all relevant Perennial Investment Management policies and procedures (for example around AML, Staff Dealing Gifts, and Entertainment, etc.)</li> <li>• From an investment compliance perspective, pre-trade compliance is undertaken automatically before any trade can be executed. Post-trade compliance is undertaken by both the Perennial compliance team and the Custodian (NAS). Any issues addressed must be rectified within 24 hours.</li> <li>• Front-office systems include both Bloomberg AIM and a proprietary internal database.</li> <li>• Risk analytics include both conventional and internal proprietary measures.</li> </ul>	<p>shelf services it uses: Bloomberg AIM, Daintree Database, and NAB Asset Servicing. Pre-trade compliance checks run automatically on creating a new portfolio order. FundSource is aware that the PM can amend or cancel trades. All amendments or cancellations must be in writing, to provide a clear audit trail. FundSource believes, that to some degree, this undermines the time taken to set parameters in to the system employed to ensure strong investment governance. FundSource acknowledges there may be a small number of occasions where a trade may need to be amended or cancelled.</p> <p>In Australia additional compliance and governance frameworks are provided by PVM and NAB Asset Services. PVM are the responsible entity, and provided operational, compliance, legal and business development functions. NAB Asset Services provide end of day compliance, administration and custodial services, and performance reporting.</p> <p>FundSource notes that the Manager implements ESG principles in the Fund's investment process. FundSource notes that the Manager's approach to ESG sees each analyst taking responsibility for ESG attributes when assessing a security/issuance. The ESG framework is proprietary, rather than relying on third party providers. FundSource notes this allows the Manager to focus on areas where it seen consistent issues, particularly around governance.</p>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>The alignment of interests within the investment team is a key point of difference for Daintree Capital as compared to competitors. All investment staff either own equity in the firm, or have a documented option agreement enabling them to do so subject to fulfilling reasonable performance hurdles. Daintree Capital believes that this structure, as opposed to one where principals are the sole equity owners, is imperative to long-term team stability, the proper alignment of interest of staff with investors, and ultimately the generation of sustainable value over long periods of time. All staff are co-invested in the Fund.</p> <p>Incentive payments (i.e. bonuses) may also be payable to analysts which will vest over a period of time. In addition, there are significant deferrals of equity dividends. All unvested dividends and incentive payments are invested in the Fund until release. In this way co-investments that staff already have in the Fund are expected to grow significantly over time.</p>	<p>The ownership of Daintree currently sits with Mark Mitchell and Justin Tyler. All investment personnel either own equity in the Daintree, or have options to acquire equity, on certain hurdles being met.</p> <p>FundSource highlights that dividends from shareholdings and short term incentives are vested in the Fund. This is viewed favourable, as the investment team are incentivised to ensure their escrowed dividends and cash bonuses do not only retain value, but grow over time. This capital protection and potential growth carries the same risk as all other investors. Therefore, the Fund's performance dictates shareholder and staff incentive plan outcomes. Currently the Daintree investment team, along with PVM directors, are significant investors in the Fund. Neither party has current plans to divest as the Fund's FUM grows.</p>

## Conclusion and Rating

Overall, the Manager provides diversification to the global fixed interest funds in the FE Analytics universe. This Fund not only fills a gap, but is one of a small number of Managers that provide investors with exposure to an unconstrained fixed interest fund.

The Manager has partnered with Perennial Value Managers (PVM) who provide vital operational and capital support, in conjunction with NAB who provide custodial services. This allows the Manager to focus on investing, rather than operational aspects of the business. PVM are well resourced and have significant experience in developing and growing new funds management operations across most asset classes. This assists in mitigating corporate risk typically associated with new fund managers. FundSource notes this does not remove the risk completely.

The Daintree investment team has strong industry experience, but is mitigated by the short manager tenure. Despite being new, the investment team is very well resourced both internally and externally, with the ability to leverage and access resources from PVM. FundSource believes Daintree has a very strong alignment with investors through the variable compensation components being vested in the Fund. This is considered a strong positive.

The key risks investors need to be comfortable with is the short period the Manager has been operating and the ability to remain true to the objective. While it has a very short history, the Fund has commenced positively. The Manager has set an

achievable and targeted return, which won't require significant risk to achieve. Key person risk in the two PM's, Mitchell and Tyler is considered to be high. FundSource notes that any departures would be viewed negatively and potentially render the Fund sub investment grade. The Fund's scoring has been based on information as it stands today and does not speculate on future outcomes. As that unfolds the views, opinions, scores and ratings may change.

Absolute return fixed income funds can appear to have simple investment strategies that are easily replicable. However, FundSource highlights that the Overlay Portfolio can be complex, and is based around derivatives.

The Fund's basic fee is well below the average FE Analytics NZMI Fixed Interest Global sector fee. The Manager intends to retain the same fee when the fully hedged NZD overlay commences in the near future, which FundSource views favourably.

FundSource recommends that investors carefully consider that the Manager's approach to absolute return investing in the fixed interest sector is aligned with their needs, objectives, and risk profile. Further to this, investors should be comfortable in taking on some business risk, in conjunction with investment risk, as the Manager commenced operation in 2017.

### FundSource Rating: **AA**

Fund ratings are current as at the date of publication of this report. FundSource reserve the right to review and update fund ratings from time to time.

## Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score
Corporate & Investment Governance	15%	4.00 / 5
Investment Philosophy & Process	20%	4.40 / 5
People	25%	3.00 / 5
Portfolio Construction & Implementation	15%	3.30 / 5
Risk Management	15%	4.20 / 5
Investment Fees	10%	4.43 / 5

Overall Average Score: **3.80 / 5**

## FundSource Rating Guide

The qualitative rating of a fund is a function of the FundSource Research Factor Weighting process, which is built around the six core qualitative research process categories. The weighted scores result in an overall score, out of five, which is then matched to the following rating:



### AAA: Highly Recommended

Funds that have superior average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, significantly experienced and stable senior personnel, a sound track record over a full market cycle, a clearly defined investment philosophy and process, and a portfolio consistent with that philosophy and process. The management company will also have established effective controls to maintain that philosophy.

### AA: Recommended

Funds that have strong average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, experienced and stable personnel, a sound track record over a full market cycle, a clearly defined investment philosophy and process, and a portfolio consistent with that philosophy and process. The management philosophy must be coherent and consistent with existing portfolios and processes.

### A: Investment Grade

Funds that have good average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, experienced personnel, a sound track record a defined investment philosophy and process, and a portfolio consistent with that philosophy and process.

### FW: Fund Watch

There has been a material change with either the manager, this may include, but is not limited to, departures, new hires, process changes, changes to the investment philosophy. This is considered to be an interim measure, to enable further investigation, re-evaluation and an appropriate course of action to be determined.

### S: Sell

This category covers previously recommended funds that are no longer recommended because of some material change. Removal from recommended status might be for a variety of reasons such as a fundamental change in the fund management company or in the manager's investment strategy, or because a fund did not meet its original expectations. The implications for ongoing service are that the fund should be reviewed on an individual client basis to ensure it still matches their original investment objective.

### NR: Not Rated – Screened/ Not Rated

Funds in the Not Rated – Screened category have provided information and/or FundSource has conducted an initial analysis of the fund, but has chosen not to provide a recommendation at this stage. FOR Not Rated funds the manager may have provided information, but no review meeting has been conducted

## Disclaimers, Disclosures and Warnings

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