DAINTREE CORE INCOME TRUST (NZD)

QUARTERLY FACTSHEET: 31 December 2019

Awards & Credentials

Daintree Capital is proud to have been nominated as a Finalist for the Money Management Fund Manager of the Year Award in the Emerging Manager category for 2019. We are also a signatory to the United Nations Principles for Responsible Investment.

Signatory of:

Fund Description

The Daintree Core Income Trust NZD (the Fund) is an absolute return, cash plus, investment grade 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 and capital stability over the medium term by investing in a diversified portfolio of fixed income securities and cash. The Fund seeks to produce a return (net of fees) that exceeds the RBNZ Cash Rate by 2.00-2.50% p.a. over a rolling three-year period.

Quarterly Highlights

- The Fund performed well for the quarter, driven by coupon income and credit spread contraction
- The quarter was defined by higher interest rates along the yield curve, with interest rate volatility remaining higher than it was in the first half of the year
- Better risk appetite supported credit spreads, as trade war escalation and hard-Brexit tail risks were largely resolved
- Overlay strategies, in particular hedges, detracted over the quarter

Key Statistics

Modified Duration (Yrs)	0.99
Spread Duration (Yrs)	3.41
Portfolio Yield (%)	2.64
Average Credit Quality	A
Portfolio ESG score (MSCI)	A

Note: Portfolio yield is the expected return over the next year, assuming no changes to either portfolio composition or market yields. 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 Core Income Trust (NZD)
Responsible Entity	Perennial Investment Management Ltd
Portfolio managers	Mark Mitchell & Justin Tyler
Inception date	14 May 2018
APIR code	WPC0696AU
Management costs	0.50% pa
Buy/sell spread	+0.05% / -0.05%
Entry and exit fees	None
Pricing frequency	Daily
Initial investment	$25,000
Distribution frequency	Monthly
Currency	New Zealand Dollar

Platforms

The Daintree Core Income Trust NZD is available on the following platforms:

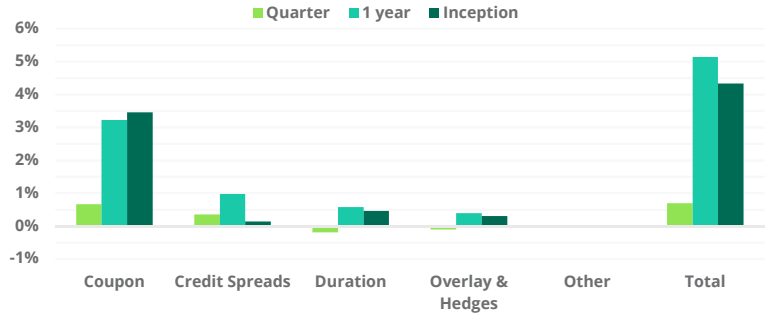
- FNZ
- FINZO
- Aegis

Performance & Analytics

	Month (%)	Quarter (%)	1 Year (%)	Inception (% pa)
Fund (gross)	0.06	0.69	5.14	4.33
Fund (net)	0.02	0.56	4.59	3.76
Distribution (net)	0.15	0.41	2.15	2.54
Growth (net)	-0.13	0.15	2.44	1.23
RBNZ Cash Rate	0.08	0.25	1.40	1.53
Excess Return	-0.06	+0.31	+3.20	+2.23

Note: Performance inception is 1 June 2018. Excess return is measured with reference to net performance. Returns for periods longer than one year are annualised. Distribution return is the monthly cents per unit distribution divided by the net asset value unit price at the start of the month. Past performance is not a reliable indicator of future performance.

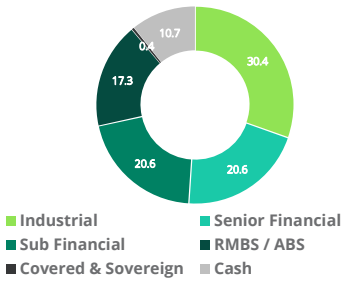
Performance Contribution (Pre Fees)



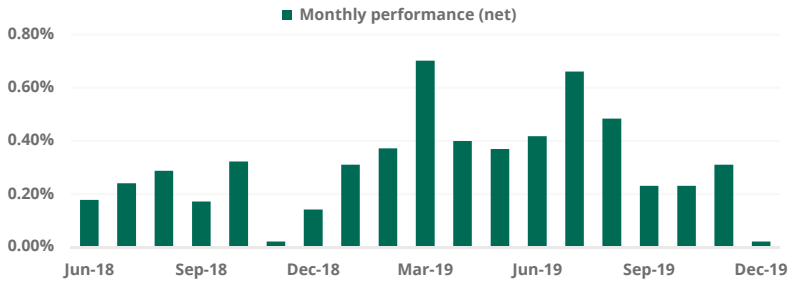
Note: Overlay strategies use derivatives to ensure that the fund exposure to interest rates, credit and other relevant factors is controlled separately to the physical assets in the portfolio

Rating Exposure (%)

Sector Exposure (%)

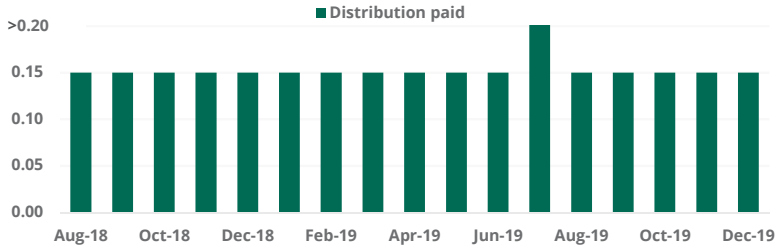


Monthly Performance



Cash Income

The Fund distributed 0.15 cents per unit in December.



Fund Review

Credit drove fund returns in the December quarter, as a step change in risk appetite across markets saw demand for paper increasing across sectors. The flip side of this was higher interest rates across jurisdictions and tenors, which detracted from performance. This extended to our overlay as well, where hedges we had instituted also detracted. Nonetheless, the fund ended the quarter once again with positive returns; October and November more than offsetting a lacklustre result in December.

Outlook

Does Q4 2019 mark a turning point for markets? After all, a hard Brexit has been averted (albeit much hard work remains to be done before the UK leaves the EU), an escalation in the US/China trade-war has been averted (albeit the scope of what was agreed was small, and significant disagreements remain between the two countries both in- and outside the trade sphere), manufacturing weakness has been arrested (albeit manufacturing PMIs are still in or close to contraction in Europe, the US, Japan, Australia and a number of other countries) and the Fed averted market concerns about its policy stance (despite tensions in the repo market being resolved by more asset purchases).

Several resolutions, yet several caveats. Markets may be getting ahead of themselves early in the new year; in Daintree's view it is too early to say. Good performance at the beginning of a calendar year is not unusual, so current trends may have further to run from a seasonal perspective alone. The question is, will markets focus seriously on downside risks in 2020? Or will 2020 mark a continuation of the status quo, with central bank liquidity continuing to float all boats? We think the latter view is more likely. An important feature of the post-QE environment has been the ease with which markets initially shrug off bad news, with the hurdles to risk-off market behavior having lifted over time as central bank policies around the world continue to squash volatility. So, 2020 should be another strong year for risk assets then, if central banks can continue to provide food and drink to the party.

Our view is not a lazy one though. There are always risks to be considered and managed. 2020 may, for instance, be a year where good performance early on is more than undone later. We discuss possible global catalysts for this view below, but even locally it is already clear that all is not well in the Australian economy. Persistent momentum in wages seems a distant prospect, given the highest underemployment rate in the OECD and low business confidence. The New Zealand labour market is much healthier, but here too business confidence has been falling on the back of global concerns. New Zealand growth has slowed, albeit the flow through from easier financial conditions in 2019 may yet be a support for 2020. Bushfire-related stimulus will be welcome in Australia and is sorely needed by those affected, but this will probably result in any wider subsequent fiscal stimulus being further delayed, again in contrast to New Zealand's more permissive stance. Low Australian business confidence also means that Australian business investment outside of mining will probably remain low. This backdrop will likely see the RBA stepping into the breach once more, cutting rates at least once more in 2020 while the RBNZ remains on hold. Australia may even go further still, joining the major developed economies in undertaking QE.

Fortunately, Antipodean consumers will likely enjoy further appreciation in the value of their assets though. But at what point does the asset valuation tide go out? And how many people will be shown to be without clothes? Three potential offshore catalysts that may cause markets to less easily shrug off the already significant uncertainty in the global backdrop are:

1. Chinese slowdown: Chinese consumption is at 2016 lows and momentum continues to point to even weaker outcomes. At the same time, stimulus measures are less pronounced than they were in the last slowdown, because Chinese authorities fear exacerbating longer-term imbalances. Although Australia's export sector may benefit from a resumption of Chinese investment-led stimulus in the event of a serious downturn, such a downturn would mark a period of negativity in markets.

2. US corporate profits: Corporate profits have declined in the US and are close to levels that have been associated with recessions in the past. We feel that a continuation in this trend is a risk for markets in the coming year.

3. Geopolitical risks: Even if the US/China trade situation unexpectedly resolves to a longer-than-expected détente (which we see as unlikely), many other risk factors are yet to be dealt with. For example, the US presidential election may see economic opportunities ignored and economic dynamism declining, even before the long-term issue of US deficits is considered. A meaningful fiscal union in the EU seems a necessary, yet still distant prospect even as the ECB now lacks any meaningful monetary ammunition. Middle Eastern tensions are flaring up again. Any of these in isolation may not be enough to roil markets, but they may make other proximate catalysts of market weakness more efficacious.

These are risk factors, and not a statement of our core views. In fact, there are positive risk factors to look out for as well which may propel markets through 2020 and beyond. A move towards more meaningful fiscal stimulus in jurisdictions like Germany and Australia is unlikely in our view, but possible. A more meaningful cyclical rebound in global manufacturing sectors would also be supportive of markets. Continued support from global central banks is, however, the most likely positive catalyst. Thus, we believe risk markets can advance further in 2020, despite risk factors such as those we mentioned above justifying continued monitoring.

Daintree Capital's funds are positioned to benefit from a continuation of the status quo, but we also see common sense in at least maintaining (or in fact increasing) portfolio liquidity, being cautious with respect to higher-beta credit like high yield bonds and leveraged loans and continuing to pay attention to potential portfolio hedging strategies within our overlay. In this way, we can continue to offer investors a stable income stream, combined with a strong capital preservation imperative.

Daintree Capital wishes to thank all our investors for their support in 2019, and we wish everyone a happy and prosperous 2020.