



Qualitative Fund Research

QuayStreet Fixed Interest Fund

September 2018



Awards 2018

Boutique Manager of the Year

Longevity Award - Finalist

About the Manager

QuayStreet Asset Management Limited (the Manager, QuayStreet) was re-established in 2014, as a wholly owned subsidiary of Craigs Investment Partners (CIP). CIP grasped the opportunity to assemble an experienced and dedicated funds management team. While relatively new, QuayStreet has a strong base of funds under management and distribution platform. QuayStreet aim to deliver great investment returns and superb client service. The Manager has provided a brief profile available [here](#).

QuayStreet's investment philosophy is that an actively managed and concentrated selection of investments can provide better returns than market benchmarks. A broader description of the Managers philosophy is available [here](#).

QuayStreet makes available a range of investor resources outlining the broad investment beliefs including understanding risk, diversification and asset allocation [here](#) and socially responsible investment policy [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 QuayStreet Fixed Interest Fund ("the Fund") gives investors access to a portfolio of domestic and international fixed interest securities, which can include derivatives. The asset allocation is expected to be biased to New Zealand securities, but can include a meaningful tilt to international fixed interest securities.

The Fund is predominantly subject to domestic and international credit market risk and movements (both positive and negative), in interest rates, and the prices of the underlying securities comprising the portfolio.

Investors should be aware that the Fund may experience periods of negative returns and that there is a risk of potential capital loss being

QuayStreet have 10 funds available in the market place:

- QuayStreet Income Fund
- QuayStreet Conservative Fund
- QuayStreet Balanced Fund
- QuayStreet Growth Fund
- [QuayStreet Fixed Interest Fund](#)
- QuayStreet New Zealand Equity Fund
- QuayStreet Australian Equity Fund
- QuayStreet International Equity Fund
- QuayStreet Balanced SRI Fund
- QuayStreet Altum Fund

The Fixed Interest Fund is directly managed by a team of five investment professionals, who represent the total QuayStreet investment team. For the number and type of funds being managed, the team is slightly under resourced, however is led by senior investment personnel with strong investment and portfolio management backgrounds. The Manager has provided individual bios for the team [here](#).

incurred on their investment. The Fund is suitable for investors with an investment horizon of more than five years.

Currency hedging has a broad range from 0%-100%, however investors should expect the portfolio to be fully hedged for international fixed income investments.

The Fund is a Portfolio Investment Entity (PIE). The Fund pays a distribution every six months. The size of the distribution is at the manager's discretion.

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>As at 30 June 2018 QuayStreet Asset Management had \$789.3m of net funds under management (FUM). The gross fund size of the QuayStreet Fixed Income Fund was \$192.3m.</p> <p><i>As at 30 June 2018:</i></p> <table border="0"> <tr> <td>Income Fund:</td> <td>\$ 118.4M</td> </tr> <tr> <td>Conservative Fund:</td> <td>\$ 68.4M</td> </tr> <tr> <td>Balanced Fund:</td> <td>\$ 188.5M</td> </tr> <tr> <td>Growth Fund:</td> <td>\$ 184.0M</td> </tr> <tr> <td>Fixed Interest Fund:</td> <td>\$ 192.3M</td> </tr> <tr> <td>New Zealand Equity Fund:</td> <td>\$ 57.9M</td> </tr> <tr> <td>Australian Equity Fund:</td> <td>\$ 53.0M</td> </tr> <tr> <td>International Equity Fund:</td> <td>\$ 233.5M</td> </tr> <tr> <td>Balanced SRI Fund:</td> <td>\$ 39.0M</td> </tr> <tr> <td>Altum Fund:</td> <td>\$ 52.2M</td> </tr> <tr> <td>Total in these PIE Funds:</td> <td>\$1,187.0M</td> </tr> </table>	Income Fund:	\$ 118.4M	Conservative Fund:	\$ 68.4M	Balanced Fund:	\$ 188.5M	Growth Fund:	\$ 184.0M	Fixed Interest Fund:	\$ 192.3M	New Zealand Equity Fund:	\$ 57.9M	Australian Equity Fund:	\$ 53.0M	International Equity Fund:	\$ 233.5M	Balanced SRI Fund:	\$ 39.0M	Altum Fund:	\$ 52.2M	Total in these PIE Funds:	\$1,187.0M	<p>The Manager has had significant funds under management growth across all funds since May 2017, increasing by over \$230 million, across its product suite. FundSource notes that QuayStreet commenced in 2014 net FUM of \$276.3m and has grown to a net FUM of \$789.3m in less than 4 years. This is a significant result and a testament to the effectiveness of the relationship between Craigs and QuayStreet.</p> <p>The Fixed Interest Fund was established on 30 September 2009. FundSource notes the Manager has undergone changes with the investment team moving from another manager to QuayStreet in July 2014. A key component to the growth of the Managers FUM is its aligned distribution through Craigs Investment Partners, one of New Zealand's largest private wealth advisory businesses.</p> <p>FundSource notes that the difference in total FUM (net: \$789.3m vs gross \$1,187.0m) numbers is due to inter-funding from the diversified funds.</p>
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<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>Roy Cross (Senior Investment Analyst) is the portfolio manager of the QuayStreet Fixed Interest Fund and the Income Fund since 2014. Previously he was a Senior Investment Analyst at Brook Asset Management and jointly managed the Brook Income Fund Roy Cross has 13 years of experience in financial markets.</p> <p>Cross is also supported by Andrew South (Director of Australasian Equities), James Ring (Director of International Equities); both have more than 25 years of experience across Australasian and International financial markets, and Stefan Stevanovic (Senior Investment Analyst) who has 10 years' experience</p> <p>QuayStreet was established in 2014 but the majority of the team worked together for almost 10 years at Brook Asset Management prior to joining QuayStreet.</p>	<p>Cross has been the Fund's Portfolio Manager (PM) since July 2014. Cross was previously a senior analyst with the now defunct, Brook Asset Management, a role Cross held for over eight years. Importantly Cross has worked with South and Stevanovic for over six years, all of who worked at Brook Asset Management.</p> <p>The Manager has taken a team approach to all 10 of its funds. The addition of Schalk Keyter in late 2016 is viewed positively, FundSource would prefer the addition of senior analysts, notably for fixed income securities. The number of funds managed by a team of five is higher than most New Zealand managers. FundSource does acknowledge that the three diversified funds are constructed from combining the asset allocation decisions and investing in to the single sector funds, such as this Fund, simplifying the process and resource requirements.</p> <p>Operations, client services and compliance functions are all separated from the investment management functions. This ensures appropriate attention is being given to the operational aspects of investing and assist in keeping the investment personnel focused.</p>																						
<p>What objective is the Manager trying to achieve?</p>	<p>The investment objective is to provide a level of return above the funds benchmark return. The benchmark is the S&P/NZX Investment Grade Corporate Bond Index Total Return.</p>	<p>The Manager's key objective is to provide a level of return above the New Zealand fixed interest market. The Manager looks to achieve this by investing in a diversified investment grade portfolio of domestic and international fixed interest securities.</p>																						

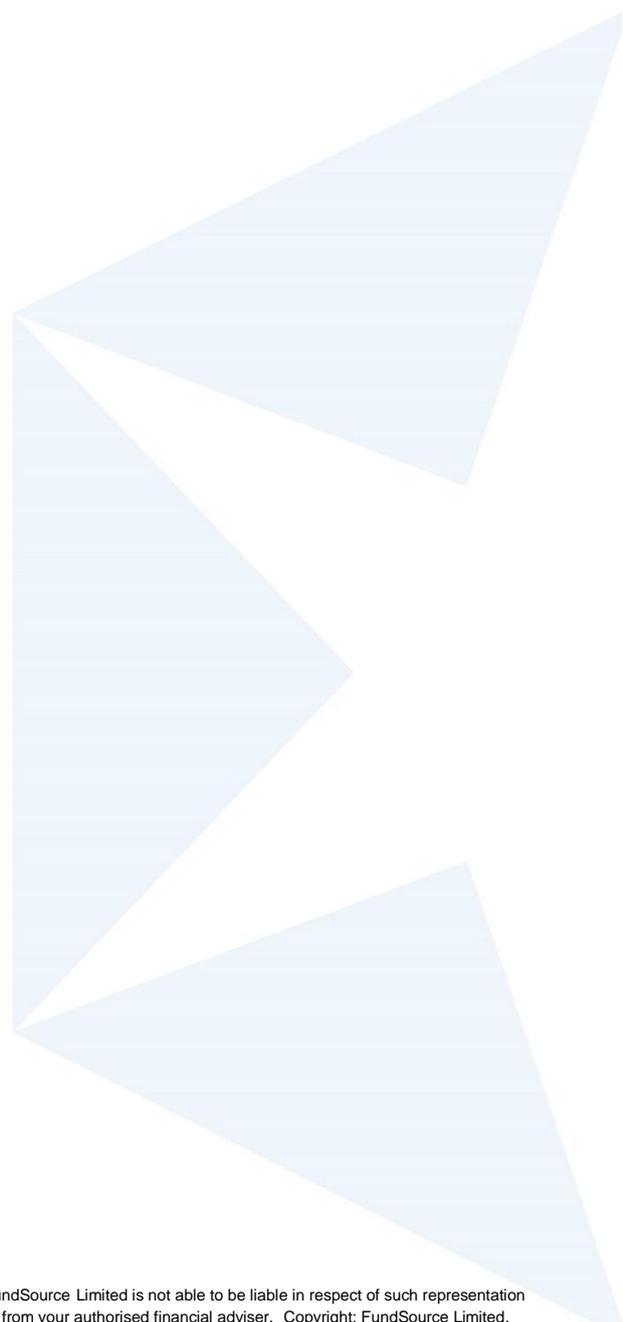
		<p>FundSource notes the Manager's selected benchmark is relevant for the Fund's objective. FundSource highlights the manager does not provide specific guidance on the performance an investor should expect.</p> <p>The Fund's historical performance has been greater than the average of the FE Analytics NZMI Fixed Interest New Zealand sector peers. Since Cross assumed PM responsibilities in 2014, the Fund's performance on a gross of fees and tax basis has outperformed the Funds benchmark, but on a net of fees and tax basis has underperformed the Funds benchmark. However, the Manager invests for the medium to long term, and is not driven by short term market dynamics.</p> <p>The Fund's performance gross of fees and tax and net of fees and tax is available on the Managers website. FundSource notes that the Funds benchmark does not consider fees and tax in its reporting either, which is not consistent with an investor experience. The inclusion of a table detailing returns after fees and tax is viewed positively, as it approximates an investors' experience at each prescribed investor rate. Further historical performance data is available on the Disclose website and via the FundSource website.</p>																												
<p>What does the Manager invest your money into?</p>	<p>The Fund targets investment grade securities and while international investments are permitted they are fully hedged back to New Zealand dollars. The investments are spread across multiple issuers, sectors, maturities and regions to provide an appropriate level of risk diversification. The Fund does have the ability to invest in other funds and may use derivatives for the purposes of enhancing expected returns, risk management or to obtain desired market exposures. The Fund may also hold cash and invest in term deposits.</p> <p>The Fund's minimum and maximum limits across the different asset classes are provided below:</p> <table data-bbox="587 1541 1005 1915"> <tr> <td colspan="2">Australasian</td> </tr> <tr> <td>Equities:</td> <td>0% - 0%</td> </tr> <tr> <td colspan="2">International</td> </tr> <tr> <td>Equities:</td> <td>0% - 0%</td> </tr> <tr> <td>Listed Property:</td> <td>0% - 0%</td> </tr> <tr> <td>Unlisted Property:</td> <td>0% - 0%</td> </tr> <tr> <td>NZ Fixed Interest:</td> <td>0% - 100%</td> </tr> <tr> <td colspan="2">International Fixed</td> </tr> <tr> <td>Interest:</td> <td>0% - 100%</td> </tr> <tr> <td>Cash:</td> <td>0% - 40%</td> </tr> <tr> <td colspan="2">Total Growth</td> </tr> <tr> <td>Assets:</td> <td>0% - 0%</td> </tr> <tr> <td colspan="2">Total Defensive</td> </tr> <tr> <td>Assets:</td> <td>100% - 100%</td> </tr> </table>	Australasian		Equities:	0% - 0%	International		Equities:	0% - 0%	Listed Property:	0% - 0%	Unlisted Property:	0% - 0%	NZ Fixed Interest:	0% - 100%	International Fixed		Interest:	0% - 100%	Cash:	0% - 40%	Total Growth		Assets:	0% - 0%	Total Defensive		Assets:	100% - 100%	<p>The Fund predominantly invests in New Zealand fixed interest securities but can invest significantly in international fixed interest securities. Notably, Australian fixed interest is classified as international fixed interest. FundSource notes that international fixed interest exposure is typically fully hedged.</p> <p>The Manager believes that market inefficiencies do exist and can be representative of short term investment thinking, an over reliance on broker research, lack of understanding of the company's business model and specific events such as index changes.</p> <p>The Manager has a long term investment perspective. The investment team look to garner a deep understanding of a potential investment to assist in determining the intrinsic value or themes that are being explored at a point in time.</p> <p>The Fund is suitable for investors who want an actively managed fixed interest portfolio which provides the Manager several levers to implement its views. The Fund looks to maximise investor's potential returns by focusing on sustainable business models. FundSource believes the Manager upholds its long term focus, across all its products, based around sustainability.</p>
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<p>What are the inherent risks imbedded in the Fund?</p>	<p>The Fixed Interest Fund invests across different asset classes and across different regions. Some of the principal risks of investing are:</p> <ul style="list-style-type: none"> - Market risk (performance of financial markets) - Specific investment risk (individual security performance) - Asset allocation risk (asset class performance) - Currency & Country risk (changes in currency valuation or country specific risks) - Interest rate risk (changes in interest rates) - Counterparty risk (counterparties do not fulfil their obligations) - Liquidity risk (trade execution) 	<p>The Manager is aware of the broad range of risks, as documented in the Product Disclosure Statement (PDS).</p> <p>FundSource notes that the Manager subjects all investment ideas to a peer review process, rigorously debating all aspects of a current or potential investment. FundSource would prefer that the Manager implemented a formal investment committee approach, to provide consistency in the structure of the debate around companies.</p>
<p>Why do they believe the future prices of the Fund's investments will vary?</p>	<p>The Investment Team focuses on both quantitative and qualitative factors when making investment decisions. Some of these are as follows:</p> <ul style="list-style-type: none"> - Attractive valuation on a risk adjusted basis - Strong business model that provides sustainable cash flows and an attractive product/service offering - Solid position and power in its sector relative to competitors, potential new entrants and it's key stakeholders - Good outlook for the sector the company operates in and low level of threats/risks for that sector (i.e. political, technological etc.) - High quality of management, strong corporate governance and impact on the society and environment <p>The Investment Team will also assess broad based economic factors when making asset allocation decisions such as relative points of economic cycles in countries we invest in, broad asset class valuations, market consensus changes, geopolitical risks and economic outlook(s).</p>	<p>FundSource notes that the Manager's primary driver of performance is its security selection, be it fixed interest (predominantly corporate debt), equity or listed property, and identifying sustainable businesses whose securities are attractively priced and generate appropriate yield. The Manager attributes 30% to industry factors, 30% to governance factors and 40% to valuation factors. Notably governance factors take in to consideration Environment, Social and Governance (ESG) policies, which is gaining critical scale globally. This does not imply that the companies it invests in are signatories to the UNPRI, or the fund is considered an ESG fund. FundSource believes the process underpins all the Managers funds and is viewed positively.</p> <p>Importantly, company factors are not the sole driver behind security selection, with the Manager considering current economic conditions when determining the funds asset allocation and security type.</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>QuayStreet's underlying investment philosophy is that an actively managed and concentrated selection of high quality investments can provide better returns than market benchmarks. We maintain market inefficiencies exist which from time to time offer attractive investment opportunities. These inefficiencies are often caused by factors such as short term momentum, changes in investor behavior and general market dynamics and over reliance on consensus expectations.</p> <p>Financial markets can experience extended or extreme periods of negative returns and QuayStreet as an active manager has the resources and ability to implement capital protection strategies or reduce overall market exposure. While being a boutique manager QuayStreet is unique in that it manages its investments across a wide array of asset classes and regions. This gives QuayStreet the ability to attain exposure to securities which are</p>	<p>The Manager is providing investors with an opportunity to gain exposure to a diversified portfolio primarily comprising domestic fixed interest securities, with some exposure to international fixed interest securities. This can include the use of derivatives. This Fund is one of 26 funds in the FE Analytics NZMI Fixed Interest New Zealand sector.</p> <p>Investors should expect the fund to be fully invested, with the cash allocation a result of the Managers inability to identify sustainable companies at reasonable yield or attractive prices. Alternatively, the Manager can use its cash allocation to provide some additional protection against extreme downside movements. Cash can range from 0-40%. The performance history of the Fund is available on the Manager's website.</p> <p>The Disclose website outlines the Fund's performance since inception, on a net of</p>

	<p>class leaders in specific investment thematic where a suitable Australasian proxy may not exist and identify risks or trends which have not been understood or fully priced in by the local market and its participants.</p>	<p>fees and tax basis. FundSource notes that the reference performance benchmark, on the Disclose website, is gross of fees and taxes. Further performance is available via the FundSource website.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>The Investment Team spends significant amount of time analysing individual securities from a qualitative and quantitative perspective and how these securities sit within the portfolio from an investment return objective and total risk context. Therefore, purchasing or selling securities is based on a multitude of factors. Some of the primary ones we consider are as follows:</p> <ul style="list-style-type: none"> - Valuation (current price vs intrinsic value, sustainability of earnings and growth, market expectations etc.) - Quality of business (competitiveness, bargaining power, threats etc.) - Fundamental changes (management, deteriorating operations, inefficient allocation of capital) - Risks (liquidity, tracking error, specific security risk, currency, market risk, asset class risk etc.) 	<p>All securities invested in have traversed the Manager's process, including a rigorous peer review process. The Manager's qualitative process is primarily focused on credit quality, yield and duration offered by debt instruments, including corporate debt and hybrids. The Manager does not have any specific guidelines used to underpin its quantitative filtering, which may lead to each analyst using their own process to narrow down the universe. The Manager does not have a target number of securities it completes qualitative research on for this Fund.</p> <p>FundSource notes that the Manager's approach is less structured than most peer Managers. FundSource highlights that the Fund is benchmark aware, which should mitigate significant deviation and excess risk in the Fund.</p>
<p>Has the CIO/ PM personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>The majority of the QuayStreet Investment Team have a significant proportion of their individual investments allocated across a wide range of QuayStreet Funds. The Investment Team all pay the same fee as other unit holders and there are no financial incentives or discounts provided to any staff to invest in QuayStreet Funds.</p>	<p>FundSource believes that 'eating your own pudding' should be an aspect potential investors consider, when deciding to invest in any financial product.</p> <p>Investing in funds alongside investors and at the same fees, aligns the interests of investment personnel with those of the investors.</p> <p>FundSource acknowledges that, due to the number of funds and inter funding of diversified funds in to sector funds, it is unlikely the investment team invest in all of QuayStreet's funds.</p>
<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>The Fund has the following asset class targets and ranges:</p> <p>Australasian Equity - Target: 0% Min-Max Range: 0% - 0%</p> <p>International Equity - Target: 0% Min-Max Range: 0% - 0%</p> <p>Listed Property - Target: 0% Min-Max Range: 0% - 0%</p> <p>Unlisted Property - Target: 0% Min-Max Range: 0% - 0%</p> <p>NZ Fixed Interest - Target: 100% Min-Max Range: 0% - 100%</p> <p>International Fixed Interest - Target: 0% Min-Max Range: 0% - 100%</p> <p>Cash - Target: 0% Min-Max Range: 0% - 40%</p> <p>Growth Assets - Target: 0% Min-Max Range: 0% - 0%</p>	<p>FundSource highlights the Manager has a reasonable degree of flexibility to assist in meeting the Fund's targeted return, while preserving capital. FundSource considers the Manager's flexibility will assist in meeting the Funds objective, but may also materially change the underlying investments to international fixed interest.</p> <p>While the Manager is unlikely to exploit the ranges available, it does leave a gate open for the manager to change the asset allocation.</p> <p>FundSource notes the international fixed interest securities are expected to be fully hedged.</p>

	<p>Defensive Assets - Target: 100% Min-Max Range: 100% - 100%</p>	
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>The Fixed Interest Fund fee is 0.77% p.a. (incl. GST) and there are no performance fees attached. This is a total Fund fee which includes full active investment management, custody, trustee and registry fees.</p>	<p>FundSource believes the Manager is transparent from a fees perspective, noting the administration and underlying manager fees are combined and disclosed in the Product Disclosure Statement (PDS) available here, and via the Disclose website.</p> <p>At 0.64% the Managers basic fee is slightly lower than the average peer fee of funds in the FE Analytics NZMI Fixed Interest New Zealand sector.</p> <p>FundSource notes, investors that invest through third party distributors may be charged discretionary switching fees of up to 1% and should seek full fee disclosure from their advisers before deciding to invest. Investors that invest directly with QuayStreet are not charged any entry or switching fees.</p>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>QuayStreet Asset Management is 100% owned by Craigs Investment Partners (CIP), New Zealand's largest financial advisory network with more than \$12b of funds under management. QuayStreet operates and makes investment decisions independently but utilises CIP's extensive compliance, legal, accounting, marketing and operational resources. This ensures there is external oversight from a compliance, regulatory and continuing business perspective. The QuayStreet Board consists of four directors who are also directors of a number of subsidiary and associate companies of CIP. The Fund's key service providers are separate commercial entities, custodian (Citigroup), Trustee (New Zealand Guardian Trust) and Registry (MMC).</p>	<p>As a wholly owned subsidiary of Craigs Investment Partners (CIP), the Directors of QuayStreet hold a mix of executive and non-executive positions at CIP. None of the investment team hold director roles at either QuayStreet or CIP, providing distinct separation of duties from business operations and investment management, and reflects the structure typically adopted by larger institutions.</p> <p>FundSource views the outsourcing of non-investment functions to CIP and external service providers favourably. Overall this provides a solid framework for strong governance; and removes administration function from the investment team. FundSource highlights that the Funds administrator and custodian functions are considered to be material relationships and the Manager should review these key functions annually at a minimum.</p> <p>FundSource would prefer to see the Manager implement a formal investment committee structure, including non-executive members, to assist in the oversight of investment frameworks and asset allocation policies. This is based on the higher number of funds, for the size of the investment team. Further to this the use of a dedicated trader would be seen as industry best practice, separating the investment decision from the buying and selling of securities.</p>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>The Investment Team is strongly aligned to generate strong returns for its unit holders rather than primarily focusing on growing funds under management for the business as a whole. The team together has significant investments and savings across a wide range of QuayStreet funds. One of the primary determinants of profit share for a member of the Investment Team is the Fund's respective performance against its</p>	<p>FundSource observes that to preserve capital and generate a long-term positive return for investors, the Manager must remain operational. The Manager has significant FUM and the potential to grow that significantly through an aligned advice service. FundSource notes that the Manager has not relied on institutional investment to underpin its range of funds.</p>

	<p>benchmark and comparable peers on a risk adjusted basis.</p>	<p>The Manager has not undergone significant structural change of its investment team since 2014, which is viewed positively. However, FundSource notes that additional resources would allow the existing invest team to focus on specific products as opposed to being spread thinly across a large product suite.</p> <p>FundSource believes that the Manager is aligned to investor experiences, by way of investment and to a lesser degree by the variable component of compensation. FundSource believes that the investment team can acquire equity in CIP.</p>
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Conclusion and Rating

The Fund provides an investor with exposure to a benchmark aware portfolio primarily consisting of investment grade New Zealand and internationally issued fixed income securities, issued by government bodies and corporates who exhibit sustainable business models. FundSource highlights that Australian fixed interest securities are classified as international fixed interest securities for this Fund. Despite the Fund being benchmark aware, the Manager can significantly deviate from the benchmark sector weights, for example up to 40% in Cash. While the Manager is afforded a reasonable range of flexibility, FundSource does not expect the Manager to utilise the full range available, unless extenuating circumstances prevail.

FundSource notes that the Fund is one of the larger funds under management in the Managers product suite, however capacity is not considered an issue. The Manager's total FUM across all of its retail and KiwiSaver funds, including the inter funding of diversified funds in to its sector funds, mitigates product specific risks based on a fund's FUM.

The investment team, in its current guise, has a relatively short track record, but FundSource notes that the Manager was born out of Craigs IP internal investment capabilities in 2014. Several investment team members have worked together at a previous employer, reflecting the team's tenacity in

remaining together, despite a change of employer. The team have managed a portfolio of Australian equities historically.

FundSource's conviction in the Manager is underpinned by the repeatable nature of the investment process, which is applied across the Managers product suite. FundSource notes that as the universe of investments increases the team's resourcing risk increases.

FundSource believes the number of funds managed, versus the team size is higher than typically seen in the New Zealand market and FUM has grown. The Manager has recently made a new appointment after a careful and selective recruitment process with a focus on investment expertise and cultural fit. The Manager continues to look at growing the team as appropriate, opting for quality over quantity and alignment with the firm's long term growth ambitions.

FundSource notes that the basic fee is higher than the FE Analytics NZMI Fixed Interest New Zealand sector peer funds.

FundSource recommends that investors carefully consider that the Managers benchmark aware approach to managing a diversified basket of fixed interest securities, meets their investment needs and objectives.

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%	3.50 / 5
Investment Philosophy & Process	20%	3.40 / 5
People	25%	3.33 / 5
Portfolio Construction & Implementation	15%	3.50 / 5
Risk Management	15%	3.20 / 5
Investment Fees	10%	3.43 / 5
Overall Average Score.		3.39 / 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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Warning: Past performance is not a reliable indicator of future performance. Any information, opinions, views or recommendations in this report are for general information purposes only. To the extent that any such information, opinions, views and recommendations may constitute advice, they do not take into account any person's particular financial situation or goals and therefore do not constitute personalised financial advice under the Financial Advisers Act 2008, nor do they constitute advice of a legal, tax, accounting or other nature to any person. This report should not be relied upon as a substitute for advice from your authorised financial adviser.

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NZX owns a suite of securities and agricultural information businesses; managed fund research house FundSource; exchange traded funds provider Smartshares; and managed funds provider SuperLife.



RESEARCH IP

FundSource's qualitative research is conducted by independent research company, Research IP Pty Ltd. Research IP was founded in 2015 as a special purpose financial services vehicle, licensing or contracting the services of specialist advisers and analysts. The rationale behind contracting, as opposed to employing staff, is to provide flexibility, and allow Research IP to leverage the skills of specialists on an as required basis, to best meet the brief and scope of the work required to be completed. Research IP is able to leverage executive, corporate, funds management, compliance, administration, operational, quantitative analytics, qualitative research, data collection, interpretation and analysis, and database technology specialists, to deliver client focused solutions.

By leveraging the skills of specialists, Research IP is able to provide innovative and tailored financial services solutions to the market place. Client focused outcomes are underpinned by the belief that the role of business model innovation and accelerating technological change opens up new possibilities, to put client interests at the centre of the financial services industry focus, based on John Hagel's work on the possibilities for "Disruption by Trusted Advisors" and John Kay's "Other People's Money: Masters of the Universe or Servants of the People".



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