



# Qualitative Fund Research

Nikko AM Concentrated Equity Fund

November 2017

## About the Manager

Nikko Asset Management (Nikko AM) acquired Tyndall Investments, both Australia and New Zealand in 2011, with Tyndall changing its name to Nikko Asset Management New Zealand Ltd (the Manager, Nikko NZ). Nikko NZ is one of New Zealand's largest asset managers, providing solutions to a broad range of clients, including corporate superannuation schemes, various trust structures, financial planners, banks, KiwiSaver Schemes and retail investors through platforms, as detailed [here](#).

Nikko NZ is an active investment manager with a medium term focus, who can leverage the broader team of ~200 investment professionals across 11 [global-offices](#), Nikko NZ see this as being a unique advantage.

Nikko NZ, through Nikko AM, believe in strong [governance](#) frameworks, leveraging its global resources to deliver best in class systems, policies and procedures. This extends to dedicated statements on [social responsibility](#). FundSource view corporate citizenship and governance frameworks as extremely important foundations from which a manager starts to engage with the clients' experience, this is overseen by Nikko NZ's [Executive Chairman](#).

## 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 Nikko AM Concentrated Equity Fund ("the Fund") is wholesale unit trust that predominantly invests in to New Zealand equities, and to a lesser extent Australian equities. As such the Fund will generally sit within the growth component of a balanced portfolio, more specifically the equity asset class.

The Fund's objective is to outperform the Fund's benchmark, being the RBNZ Official Cash Rate (OCR) +5%. The Manager provides a comparison to the S&P/NZX 50 Index Gross with Imputation Credits on the Fund profiles.

Nikko NZ managed funds:

- Nikko AM Core Equity Fund
- [Nikko Concentrated Equity Fund](#)
- Nikko AM Global Equity Unhedged Fund
- Nikko AM Global Equity Hedged Fund
- Nikko AM Cash Fund
- Nikko AM NZ Bond Fund
- Nikko AM NZ Corporate Bond Fund
- Nikko AM Income Fund
- Nikko AM Global Bond Fund
- Nikko AM Multi-Strategy Fund

The funds are managed by a team of seven investment professionals, [four](#) being dedicated equity strategies and [three](#) to fixed income strategies. The global equities strategy is a multi-manager approach, managed by a Sydney based specialist team. Goldman Sachs Asset Management is the appointed global fixed income manager, while JP Morgan Alternative Asset Management are the appointed alternatives manager. As the global equity, bond and alternatives funds are managed by either external Nikko teams or external managers, for the number of funds being managed the team is adequately resourced.

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

The Fund is subject to equity market risk and movements (both positive and negative) from a domestic New Zealand and Australian market perspective. Accordingly, the Fund may experience periods of negative returns, and there is a risk of potential capital loss being incurred on the investment.

The Fund may enter into derivative contracts to manage market risks.

The Fund is an NZD denominated Portfolio Investment Entity (PIE). The Fund's returns are distributed only by way of semi-annual distributions.

Question	What the Manager says	What FundSource thinks																						
<p>What are the Manager's assets under management - in total and in this Fund?</p>	<p>Nikko AM NZ is solely in the business of investment management. Nikko AM NZ actively manages NZ\$5 billion of investments for corporate superannuation schemes, community trusts, charitable trusts, foundations, financial planners, banks, insurance companies, KiwiSaver Schemes, corporations, other fund managers and retail investors through platforms.</p> <p>Retail Funds Under Management (FUM), as at 31 March 2017:</p> <table border="0"> <tr> <td>Core Equity</td> <td>\$8.75M</td> </tr> <tr> <td>Concentrated Equity</td> <td>\$36.3M</td> </tr> <tr> <td>Global Equity Unhedged</td> <td>\$118.4M</td> </tr> <tr> <td>Global Equity Hedged</td> <td>\$74M</td> </tr> <tr> <td>Cash</td> <td>\$103.5M</td> </tr> <tr> <td>NZ Bond</td> <td>\$52.2M</td> </tr> <tr> <td>NZ Corporate Bond</td> <td>\$221.5M</td> </tr> <tr> <td>Income</td> <td>\$10.6M</td> </tr> <tr> <td>Global Bond</td> <td>\$21.7M</td> </tr> <tr> <td>Multi-Strategy</td> <td>\$102.1M</td> </tr> <tr> <td><b>Total FUM:</b></td> <td><b>\$5,000.0M</b></td> </tr> </table>	Core Equity	\$8.75M	Concentrated Equity	\$36.3M	Global Equity Unhedged	\$118.4M	Global Equity Hedged	\$74M	Cash	\$103.5M	NZ Bond	\$52.2M	NZ Corporate Bond	\$221.5M	Income	\$10.6M	Global Bond	\$21.7M	Multi-Strategy	\$102.1M	<b>Total FUM:</b>	<b>\$5,000.0M</b>	<p>Nikko Asset Management New Zealand is one of the larger fund managers in New Zealand. For the types of strategies, and number or strategies the business has significant total funds under management.</p> <p>The Concentrated Equity Fund commenced in 21 August 2006, and as at 30 September 2017, has \$100.2 million of wholesale and retail money invested. The retail component accounts for \$36.3 million.</p>
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<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>James Lindsay is Portfolio Manager of the Concentrated Equity Fund. James has over 20 years experience in the investment management industry with a strong track record of managing high conviction funds. He achieved Honours in his Masters of Commerce degree, completed the Diploma NZSE course and has a Bachelor of Commerce. The Nikko AM New Zealand equity team comprises of Stuart Williams (Head of Equities), James Lindsay (Senior Portfolio Manager), Michael Sherrock (Portfolio Manager) and Michael De Cesare (Research Analyst) and as a team average over 16 years' experience. All members of the team have research and recommendation responsibilities.</p>	<p>Lindsay has held the role of Portfolio Manager (PM) for this Fund since May 2001, and commenced with the Manager in 1998. With over two decades of experience Lindsay has held portfolio management and analyst responsibilities, specialising in several sectors for both benchmark aware and high conviction funds.</p> <p>Lindsay is supported by Williams, who has PM responsibilities for the Core Equity Fund, and has analyst responsibilities, focusing on several sectors for both benchmark aware and high conviction funds. Williams has over 20 years' experience, but only three years at Nikko. Michael Sherrock, whose tenure at Nikko is greater than 11 years, also provides key support, for this Fund.</p> <p>The New Zealand based investment team can leverage the broader Nikko global investment platform, spread across 11 countries. The flexibility of this Fund's allocation to New Zealand and Australian equities sees the ability to leverage Nikko's capabilities, particularly the Nikko Australian equity team, if required. FundSource believes the Fund is reasonably well resourced, from an on the ground New Zealand perspective. Globally Nikko is well resourced, and the New Zealand team are able to on engage with the broader team through structured forums or ad hoc as required.</p>																						
<p>What objective is the Manager trying to achieve?</p>	<p>The objective of the Fund is to construct a portfolio of authorised investments that outperform the Fund's benchmark return over a rolling three year period before fees, expenses and taxes. The current</p>	<p>The Fund aims to provide investors with a concentrated benchmark unaware exposure to New Zealand and Australian equity markets from an actively managed investment portfolio. With a strong focus on</p>																						

	<p>benchmark for the Fund is the RBNZ Official Cash Rate plus 5% per annum.</p>	<p>equity investment the Manager uses a non-equity based benchmark, choosing the Official Cash Rate (OCR) plus 5%. As equities can significantly outperform cash or government rates, such as the OCR, FundSource believe the Manager should be able to provide investors with an expected outperformance above a market benchmark. FundSource notes that the Funds quarterly reports on the <a href="#">Managers website</a> provides performance guidance compared to a market index, being the S&amp;P/ NZX 50 Index gross (with Imputation Credits). The Fund has the ability to hold up to 100% Australian equities, which is not represented in the market index. However, to date cash or Australian positions have never represented more than 50% of the fund.</p> <p>FundSource notes that the Manager reports performance in its <a href="#">Factsheets</a> and their website before tax, and after fees and expenses. Further performance data is available via the <a href="#">Disclose</a> website and <a href="#">FundSource</a>.</p>
<p>What does the Manager invest your money into?</p>	<p>The Nikko AM Concentrated Equity Fund can invest in NZ listed equities, Australian listed equities, debt securities and cash.</p>	<p>The Fund gains its investment exposure by investing into the Nikko AM Wholesale Concentrated Equity Fund, managed by the Nikko AM NZ Equity team.</p> <p>The Fund aims to provide investors with exposure, primarily, to New Zealand companies, and a smaller number of select Australian companies. The Manager is an active manager, and the Fund is an investment portfolio offering potential for growth of income and capital. FundSource highlights this Fund is concentrated, typically holding less than 20 companies. Due to the concentration, the Fund is better suited as a satellite fund, complimenting a well-diversified equity portfolio.</p> <p>Fundamental research underpins the Managers process to produce insight and conviction in companies. The process aims to identify mis-priced companies that offer a blend of value, growth and sustainability, highlighting the Managers view that markets can be inefficient.</p> <p>Investors in the Fund should have a minimum investment horizon of at least five years. Over shorter periods, there is potential for the fund to fall materially in value.</p>
<p>What are the inherent risks imbedded in the Fund?</p>	<p>Investing in the fund has some general investment risks which are covered in the Concentrated Equity Funds PDS - being Market Risk, Company Specific Risk, Liquidity Risk and Currency Risk. In addition to these general risks the Nikko AM Concentrated Equity Fund has the ability to use short selling investment strategies. This is the practice of selling financial securities the seller does not own (i.e. borrowing the security from a broker), with the understanding that it must later be</p>	<p>The Manager has a structured approach to managing risks in the portfolio, and has highlighted a series of risks they are mindful of when constructing and managing the portfolio.</p> <p>The security selection process is structured. All members conduct research and contribute ideas to the portfolio, based on the 15-25 companies that each analyst research in the sectors they cover. Importantly each sector has a lead analyst</p>

	<p>purchased or repurchased and returned to the broker. Short selling activity is one of the many strategies that may be employed by the investment manager as a tool to benefit from falling stock prices. If this strategy is implemented there is the additional risk that the price of the security increases and a loss is incurred. The maximum limit on the value of securities that can be short sold is 10% of the Fund's Gross Asset Value. Although permitted to do so, the Fund generally does not short sell securities. The likelihood of any impact is therefore low.</p>	<p>and a backup analyst. FundSource believes this structured approach helps to mitigate key person risk.</p> <p>The Manager doesn't rely on external inputs, such as broker reports and recommendations. Rather all research is created internally and ideas are debated daily across the desk on an ad-hoc basis, at formal weekly portfolio meetings and at monthly risk meetings with input from Nikko's dedicated Risk team in Japan.</p> <p>The Manager uses a mix of objective factors, such as intrinsic valuation, portfolio risk and liquidity, combined with subjective factors such as industry assessment, qualitative assessments of management and boards to form their view. These two factors assist in the portfolio construction process, bringing consistency, which in itself, assists in mitigating risk.</p>
<p>Why do they believe the future prices of the Fund's investments will vary?</p>	<p>The Concentrated Equity Fund is an actively managed Australasian equity fund. The fund has a flexible mandate which provides the team the ability to invest 100% in NZ equities, 100% in Australian equities or has the ability to hold cash or debt securities if the team cannot find suitable investments. The fund typically targets 15 stock ideas where the team have the strongest conviction. These stock selection decisions will largely drive future price performance of the fund. The ability to hold fixed income securities when the team cannot find acceptable investment ideas means the future price of the fund may differ from Australasian equity markets.</p>	<p>The Manager aims to hold 15 <math>\pm</math>4 companies in the portfolio, and expects this to vary by no more than <math>\pm</math>4. FundSource considers this to be quite a concentrated portfolio, in line with other concentrated funds offered in the market.</p> <p>The Manager's ability to accurately determine the intrinsic value of a company becomes integral and critical to the decisions made. This is based on the Manager's research, which in turn, carries a qualitative assessment of a company's management and board. The subjective elements will be integral to the Funds' performance, compared to its benchmark and peers.</p> <p>FundSource notes that the Manager maintains a strong program of company contact and the formal weekly investment team meeting, which should assist in mitigating below benchmark performance.</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>Under the portfolio management of James Lindsay and team leadership of Stuart Williams they have fostered a dynamic culture that serves as a platform for ongoing success. The team has a high level of experience and skill with Nikko AM providing best in class infrastructure and operational resources. The team has built a strong track record vs. peers and the benchmark. Over the past 10 years the Concentrated Equity Fund has returned 9.2% p.a. after fees which is significantly higher than the benchmark target return or against the NZX50. The Concentrated Equity Fund is a benchmark agnostic fund. The fund predominately invests in a concentrated portfolio of equities however the investment manager is allowed the flexibility to allocate to Cash or Bonds in the event they cannot find an appropriate stock.</p> <p>* As at 31 October 2018. All performance data quoted is net of fees before tax.</p>	<p>FundSource believes that the Manager's commitment to sustainable investing, environment, social and governance (ESG), is a positive step that many managers are moving toward. Nikko Asset Management is an early adopter of this global framework, and has embedded it in to the New Zealand operations.</p> <p>Compared to the 27 peer funds in the FE Analytics NZMI Equity New Zealand sector, the Fund performance has been at or above the above the sector average. Since Lindsay assumed PM responsibilities, the Fund performance has remained above the FE Analytics sector average. This has been achieved without any excess volatility compared to the FE Analytics sector peers. FundSource views this positively, given the concentrated nature of the Fund.</p>

<p>How does the Manager decide to buy or sell investments?</p>	<p>Nikko AM NZ's domestic equity philosophy is based on the premise that the New Zealand market is information inefficient. The application of active management by applying a combination of in-house fundamental research with external inputs aims to deliver out-performance. The overarching principle of the process is to develop real insight into stocks which leads to high conviction positions in portfolios. This requires a thorough evaluation of information and the flexibility to react to changing market environments. A sufficient variety of positions are held to deliver a diversity of return generators.</p> <p>The principles are based around searching for companies that create a portfolio offering a blend of value, sustainability and growth.</p> <p>During the process of researching companies, developing recommendations and constructing portfolios we have an awareness of socially responsible investing, our fiduciary responsibilities and all elements of risk.</p>	<p>The Manager typically takes a long-term view of companies held in the portfolio. Companies are typically bought when the valuation is below the Manager's calculated intrinsic value. As expected, companies are sold when valuations rise to or are above the Manager's calculated intrinsic value. The Manager's intrinsic valuation calculations are not a one-off calculation. As new information comes to market, the intrinsic valuation calculations are revised, positively or negatively. This can lead to increasing or reducing exposure to, or buying or selling out of a company. This all contributes to turnover which averages around 100% per annum.</p> <p>The Fund is concentrated and unlikely to invest in all sectors. The investment team's weekly meeting is a key to the initial evaluation process, with quantitative screening identifying companies for further investigation. A proprietary eight factor model scores and ranks companies, and applied consistently across portfolio holdings. FundSource believes there will be a reasonably high degree of correlation between the Core Equity Fund and this Fund's portfolio holding, however, this is not mandated. Analysts will undertake fundamental research, based on their specific sectors, with each analyst having secondary responsibility for other sectors as well.</p>														
<p>Has the CIO personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>James Lindsay has a significant investment in the Concentrated Equity Fund.</p>	<p>FundSource believes that managers should 'eat their own cooking'. Correspondingly, FundSource views Lindsay's significant investment positively.</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. FundSource believes that the investment team pay the same fees as investors.</p>														
<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>The Concentrated Equity Fund is a benchmark agnostic fund. The manager has significant latitude to actively invest in the team's best ideas in a concentrated manner targeting a holding of 15 stocks. The fund is permitted to invest in any equity or debt security listed or contemplated to be listed on the New Zealand or Australian exchange. The fund also has the ability to hold cash if there are not sufficient investment ideas that offer valuation upside.</p> <table border="0" data-bbox="587 1720 1002 1899"> <tr> <td>Tracking Error</td> <td>na</td> </tr> <tr> <td>New Zealand Equities</td> <td>0% to 100%</td> </tr> <tr> <td>Australian Equities</td> <td>0% to 100%</td> </tr> <tr> <td>Cash &amp; debt securities:</td> <td>0% to 100%</td> </tr> <tr> <td>Single security:</td> <td>≤20%</td> </tr> <tr> <td>Short Selling:</td> <td>0% to 10%</td> </tr> <tr> <td>Hedging:</td> <td>0% to 105%</td> </tr> </table>	Tracking Error	na	New Zealand Equities	0% to 100%	Australian Equities	0% to 100%	Cash & debt securities:	0% to 100%	Single security:	≤20%	Short Selling:	0% to 10%	Hedging:	0% to 105%	<p>FundSource believes the Fund to be quite diversified, at 15 ±4 holdings. This does not prevent the Manager from having significant positions in a company, compared to the reference benchmark. The Fund has regularly held several companies &gt;8% of the portfolio weight. This can extend to the Australian companies held in the portfolio.</p> <p>FundSource notes that the portfolio has regularly held 3 positions that are ≥10%, with the top five holdings typically representing ~50% of the Fund. The Manager has the ability to swing the bat, and hold meaningful positions. This would be reflected in volatility metrics for the Fund, which have been consistently in the top half of funds in the FE Analytics NZMI Equity New Zealand sector. FundSource notes the Fund's tracking error to date has been consistently higher than the FE Analytics sector peer group.</p>
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		<p>FundSource notes the Fund can invest in unlisted companies, but highlights the Manager has strict NZX or ASX listing criteria. The Australian equity exposure introduces some currency risk. The Fund manages currency actively, with currency hedging ranging from 0%-105%.</p>
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>The Concentrated Equity Fund offers investors access to the team's best ideas in a concentrated manner. We believe the fund offers good value for money given the capacity constraints of the fund. The performance fee charged in the fund has a perpetual high water mark.</p>	<p>The Manager discloses all fees in the <a href="#">Product Disclosure Statement</a>, and the <a href="#">Disclose website</a>.</p> <p>FundSource notes that the Manager's Basic Fee, of 1%, is higher than the average fee of the 26 peer funds in the FE Analytics NZMI Equity New Zealand sector. FundSource highlights that the Manager caps the operating expense fee of 0.25%.</p> <p>FundSource notes the Manager charges a performance fee, in addition to the other fees. The performance fee is 10%, for outperformance above the hurdle rate, the minimum return the Fund must achieve before a performance fee can be charged. The Fund's benchmark, OCR +5% over a 12 month financial period, after all other fees have been deducted. FundSource notes the Fund's benchmark has no direct relationship with the performance of equity markets. Fortunately, the performance fee is subject to a non-resettable high water mark. The high watermark is the equivalent to performance level of the Fund at the end of the last financial period when a performance fee was charged.</p>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>Nikko AM NZ has a robust globally monitored governance structure, with well-established committees and an experienced, mature Board. Decision making is timely but considered, with a careful process to ensure all relevant information is presented prior to a decision. Decision making authority is clearly set out in a combination of policy and committee charters. All Board and committee meetings are minuted (generally by an internationally qualified company secretary) and records are kept in a central, secure database. Nikko AM NZ views compliance, systems and controls as a critical part of the investment process. The portfolio managers adhere to the mandate rules and risk profile in constructing and managing portfolios. Tim Morrison, Head of Compliance, is responsible for monitoring investment risk, and has a local reporting line to the Managing Director and an offshore reporting line to the Global Head of Investment Risk. The Compliance function also monitors mandate rule compliance on a post-trade basis. The New Zealand Compliance, Risk and Disclosure Committee has an oversight of portfolio risk. The Tokyo-based Performance and Risk team monitor portfolio risk and have meetings with the New Zealand fixed interest team at least once a month to review/discuss.</p>	<p>The Manager has a strong governance and compliance framework. The Manager's governance and compliance systems and personnel are separated from the investment team functions. The localised team have direct reporting lines to respective Global Heads. The Manager's commitment to compliance and governance can be viewed <a href="#">here</a>.</p> <p>Nikko Asset Management became a signatory to the UN PRI in 2007, and believes that environment, social and governance underpin sustainable responsible investing, which can be viewed <a href="#">here</a>.</p> <p>FundSource notes that Nikko Asset Management NZ has appointed Tracey Jones as an independent non-executive director. FundSource has not met with Jones, but is aware of her financial services background. FundSource commends Nikko for improving the diversity of its New Zealand directors.</p> <p>FundSource views formal Investment Committees positively. The Manager's Investment Committee is responsible for ensuring that investment mandates and Statements of Investment Policy and Objectives (SIPO) are adhered to. The Investment Committee is not involved in day to day portfolio investment decisions.</p>

<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>Nikko Asset Management New Zealand Limited is a wholly owned subsidiary of Nikko Asset Management Co., Ltd, which is headquartered in Tokyo, Japan. Nikko Asset Management is one of Asia's largest asset managers, providing high-conviction, active fund management across a range of Equity, Fixed Income and Multi-Asset strategies. In addition, our complementary range of passive strategies covers more than 20 indices and includes some of Asia's largest exchange-traded funds (ETFs).</p> <p>Investment personnel are remunerated by way of competitive market based salary, and short and long term incentives.</p>	<p>To preserve capital and generate a long-term positive return for investors, the Manager must remain operational. The Manager has significant funds under management, which has grown over time. Being a wholly owned subsidiary of a global company headquartered in Japan can come with risk, however since acquiring Tyndall, Nikko Asset Management has strengthened its commitment to New Zealand, adding new resources to the local team.</p> <p>FundSource highlights that the corporate alignment and remuneration of investment personnel is in line with large corporates. The investment team being invested in the products they are responsible is seen as being the strongest link to an investors experience, and is viewed positively.</p>
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## Conclusion and Rating

The Fund provides an investor with exposure to a concentrated best ideas Australasian equity portfolio, where the Portfolio Manager can use several levers to generate returns. The Fund has very broad allocation guidelines, which the Manager does not intend to use ordinarily. However, provides the Fund with flexibility in highly irregular or abnormal market conditions. The Manager is aware of the benchmark, but does not manage the fund to the benchmark.

The Fund will typically hold 15 (±4) positions in the portfolio. All portfolio holdings are expected to significant in nature, and the Fund may not be invested in all sectors. Therefore, the Fund's concentration is not limited to the number of securities alone. Accordingly, the Fund is not expected to perform in line with a market based benchmark.

Fund Source's conviction in the Manager is underpinned by several, small in isolation, factors which FundSource expects will contribute positively to an investor experience. The investment team has been stable, post a 2014 restructure. The investment team can leverage resources around the Nikko group, particularly for macro inputs and additional analysis and insights for Australian companies. The risk management, compliance and governance oversight is very strong, and embedded in to the culture of Nikko NZ. Nikko AM

is well resourced globally, and the investment teams can, and do, communicate ideas. There is a good mix of local expertise, blended with strong global oversight. An encouraging sign is the recent appointment of a non-executive director to Nikko NZ, bringing independent views and adding diversity to the Nikko NZ board.

The Manager's basic fee is slightly higher than the peer average of the FE Analytics NZMI Equity Australasia sector. This remains the case when other management and administration expenses are charged. FundSource highlights the Fund charges a performance fee. FundSource notes the OCR+5% annual minimum bears little resemblance to equity market performance. FundSource notes the Manager has implemented a non-resettable high-water mark, which will factor in historical equity market performance. FundSource believes there is scope for the Manager to review the Managers basic fee, in lieu of a performance fee being charged.

FundSource recommends that investors carefully consider that the Managers flexible but disciplined, concentrated, and high conviction approach to managing Australasian equities, 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%	3.88 / 5
Investment Philosophy & Process	20%	3.70 / 5
People	25%	3.67 / 5
Portfolio Construction & Implementation	15%	3.67 / 5
Risk Management	15%	4.20 / 5
Investment Fees	10%	3.79 / 5

Overall Average Score: **3.82 / 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 which have excellent managers, stable senior personnel, a sound track record over a full market cycle, a clearly defined investment philosophy, and a portfolio consistent with that philosophy. The management company will also have established effective control procedures to maintain that philosophy.

### AA: Recommended

Funds will have first class, experienced managers, and a sound track record and reasonable stability of senior personnel where the management philosophy must be coherent and consistent with existing portfolios.

### A: Investment Grade

This category of funds covers most of the reasonably experienced, competent managers, but often with less stability of personnel than the higher rating trusts.

### 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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FundSource is a wholly-owned subsidiary of NZX, the operator of the New Zealand stock exchange. For more information about FundSource please visit [www.fundsource.co.nz](http://www.fundsource.co.nz)



NZX provides high quality information, data and tools to support business decision making. NZX builds and operates capital, risk and commodity markets, and the infrastructure required to support them.

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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