



RESEARCH IP

Qualitative Fund Research

Harbour Active Growth Fund

11 May 2020



The views and opinions in this document are considered valid from one year from the date published.

Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score	Maximum Factor Score
Corporate & Investment Governance	15%	4.00	/ 5
Investment Philosophy & Process	20%	3.60	/ 5
People	25%	3.33	/ 5
Portfolio Construction & Implementation	15%	3.17	/ 5
Risk Management	15%	4.00	/ 5
Investment Fees	10%	3.86	/ 5
Overall Average Score		3.61	/ 5

What we look at?

The qualitative rating of a fund is a function of the Research IP Research Factor Weighting process, which incorporates the following:



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Introduction

Harbour Asset Management Limited (Harbour, the Manager) formed in December 2009 and commenced operations on January 2010. Harbour is principally owned by Jarden Ltd (Jarden), at 76.3% and the balance being owned by Harbour employees. Harbour states it is a well-resourced New Zealand based investment manager with extensive professional investment experience managing funds, further details of the Manager's core views are available [here](#).

Harbour has a group wide [investment philosophy](#), based around consistency, processes and people. Harbour operates a [governance framework](#) that is overseen by an experienced Board which includes three independent directors. Harbour provides full transparency and independence around the investing and management of clients' money. Research IP views corporate citizenship and governance frameworks as extremely important foundations from which a manager starts to engage with the client experiences.

Harbour manages twelve retail funds, including:

- Harbour Australasian Equity Fund
- Harbour Income Fund
- Harbour Australasian Equity Income Fund
- Harbour Australasian Equity Focus Fund
- Harbour New Zealand Equity Advanced Beta Fund
- Harbour NZ Core Fixed Interest Fund
- Harbour Corporate Bond Fund
- Harbour T. Rowe Price Global Equity Growth Fund
- Harbour Real Estate Investment Fund
- Harbour Long Short Fund
- [Harbour Active Growth Fund](#)
- Harbour Enhanced Cash Fund

The funds above are managed by a team of 13 in total. The Fixed Income team consists of four members. The equity team comprises four Portfolio Managers, who have analyst responsibilities and are well supported by four dedicated analysts. The operations team consists of three people and in some cases, shares resources with majority shareholder Jarden. Individual bios on the team at Harbour can be found [here](#).

Meet the Manager



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Key Takeouts

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

Harbour Active Growth Fund – Research IP Quantitative Tear Sheet

<https://platform.research-ip.com/funds/68581393>

Note: FREE to access via registration, updated monthly including performance.

[Factsheet](#)

[Report](#)

[PDS](#)

[Articles / Views](#)

The Fund

Objectives	Harbour Active Growth Fund
Investment Objectives	The Fund is designed to provide investors with exposure to a wide range of domestic and global assets. The Fund invests approximately two thirds in growth assets such as shares, property and infrastructure and approximately one third into more defensive assets, predominantly investment grade bonds.
Benchmark	5% S&P/NZX Bank Bills 90-day Index, 25% Bloomberg Composite 0+ Yr Index, 10% S&P/NZX All Real Estate Index, 22.5% S&P/NZX 50 Index, 7.5% S&P/ASX 200 Index (50% hedged to NZD), 30% MSCI All Country World Index (unhedged).
Alpha Objective	To exceed the Official Cash Rate (OCR) +5% over rolling 5-year periods
Management Fee	0.77% management fee (GST exclusive)
Performance Fee	No performance fee. Note: the underlying investments may incur a performance fee. Though the manager seeks to minimise these.
Estimate of Total Fund Charges	0.96% (ex GST) - 2 March 2020
Minimum Timeframe	Medium to long term investment horizon. Minimum 5 years
Portfolio Structure	Portfolio Investment Entity (PIE)
Distributions	The Fund intends to pay Fixed monthly distributions (currently set at 5% p.a.). (Note: that this is at the Manager's discretion and could be revised down.)
Strategy Inception	1 November 2019

The Harbour Active Growth Fund (“the Fund”) is a **new strategy** designed to provide investors with exposure to a wide range of domestic and global assets. The Fund invests approximately two thirds in growth assets such as shares, property and infrastructure and approximately one third into more defensive assets, predominantly investment grade bonds. The Manager will use active management to enhance returns and manage downside risks. The Fund is actively managed, harnessing the expertise of Harbour’s two award-winning investment teams, Equities and Fixed Income. It draws on Harbour’s research and resources, brought together by portfolio manager Chris Di Leva. The Manager utilises an active management style, aiming to deliver returns through a mix of beta and alpha, while there are a number of

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other alpha sources targeted including asset allocation, FX, security selection, duration, as well as looking to add value in credit sectors.

Factor	Lower Limit	Upper Limit	Reference
Cash Allocation	2.5%	30%	5%
External Manager Limit	0%	75%	
Sector Limits	n/a		
Fixed Interest Limits:			
Investment Grade (NZ & Global)	10%	50%	25%
Non-investment Grade	0%	15%	0%
Private market debt (Loans)	0%	10%	0%
<i>Total Loans and non-investment grade credit</i>		15%	
Equity Limits:			
Australasian Equities	0%	60%	30%
International Equities	0%	60%	30%
Private Equity (inc venture capital)	0%	10%	0%
<i>Total Equities</i>	0%	85%	70%

As an active manager, the Fund has the ability to use the full asset allocation ranges when conviction is high. The Harbour Active Growth Fund can have up to 75% of the Net Asset Value of the Fund invested Harbour managed fund or funds managed by an external manager. These holdings will be managed in accordance with the overall investment guidelines of the Fund. At the time of writing the Fund is exposed to the [Harbour Real Estate Investment Fund](#), the [Harbour T. Rowe Price Global Equity Growth Fund](#), the [Harbour Australasian Equity Focus Fund](#), the [Harbour Australasian Equity Income Fund](#), the [Harbour NZ Equity Advanced Beta Fund](#), the [Harbour Long Short Fund](#), the Harbour Enhanced Cash Fund, the [Harbour NZ Core Fixed Income Fund](#), [First Sentier Global Listed Infrastructure Fund](#) and the [Baillie Gifford Worldwide Discovery Fund](#).

Hedging is applied differently for equities to other asset classes. International Equities (excluding Australian Equities) have a neutral foreign currency hedging position of 0% but will be managed within a tactical range of between 0 and 100%. Australian Equities will be managed within a tactical range of between 0 and 100%. All other foreign currency exposure is 100% hedged to NZD. Research IP does not expect the Fund will include significant currency views, rather hedging will be used to ensure income and or distributions received are not meaningfully impacted by movement in currencies.

The Fund can use derivative contracts, where the underlying risk relates to interest rate, foreign currency, equity or credit risk. The Manager is mindful of any unintended consequences this may introduce. Accordingly, the Fund's effective exposure of equity and corporate credit must not result in the Fund being levered with regards to equity and credit risk.

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Funds Under Management (FUM)

FUM	Harbour Active Growth Fund
Fund	\$7m
Strategy	\$7m
Sector	\$203m
Manager (Australasia)	\$5,018m
Manager (Total Global)	\$5,018m
Manager comment	

*at 29 February 2020

The Risks

While this is a **new strategy** and has a short track record (inception 1 November 2019), the Manager leverages existing processes and the broader Harbour investment team. The Manager is aware of the broad range of risks, as identified in the [Product Disclosure Statement \(PDS\)](#) and is mindful of them when constructing and managing the portfolio.

Research IP believes the allocation between equities and fixed income and the types of securities used in each asset class (e.g. domestic or international and government versus corporate debt securities) is critical to the Fund achieving its forward projected income objective. As a result, the Manager allows the Portfolio Manager to use several levers, including broad asset allocation and security types and ranges, to assist in meeting the Fund's objective.

The methodical approach to risk management is reflective of the Manager's complete process to investing client money.

As the Fund invests mainly in other managed funds, the Fund has a minimum cash weight of 2.5% to ensure there is sufficient liquidity to meet any redemptions.

Using this Fund

The Fund is diversified, with holdings across different asset classes, has relatively broad asset allocation ranges and is reasonably unconstrained from an asset allocation perspective as well. Research IP believes the Fund is suitable as a core portfolio holding for investors seeking capital growth, with some preservation of capital.

The Fund is subject to fixed interest and equity market risk and movements (both positive and negative) in both the prices of fixed interest securities and share prices of the underlying securities in the portfolio. Accordingly, investors should therefore be aware that the Fund may experience periods of negative returns and that there is a risk of potential capital loss being incurred on their investment. Research IP believes an investor should have a minimum investment time horizon greater than five years, preferably longer.

The Fund has the flexibility to hold material positions ranging from 0% - 60% in equities, 0%-50% in fixed interest and 2.5%-30% in cash. The Fund's asset allocation decisions can have a material impact on performance, as well as security selection. It is important to note that the asset mix and hence the risk profile of the fund can change over time.

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What the manager says?

Insight	Manager view	Research IP opinion
<p>Who is accountable for managing the fund?</p> <p>Is the investment teams work history relevant to the funds they manage?</p>	<p>As Portfolio Manager, Chris Di Leva holds ultimate responsibility for the Fund. Prior to joining Harbour, Chris was a Portfolio Manager at Mercer, managing multi-manager and multi-asset portfolios. Chris served on asset allocation committees across Mercer's funds in the Pacific and is a CFA charterholder. In constructing the portfolio, Chris draws on the expertise embedded in a number of Harbour's asset-classes investment processes. In particular, Shane Solly who manages growth equities (6years) and Simon Pannett (6 years) is responsible for credit analysis of investment grade and high yield credit. Chris' experience as a manager researcher makes him well placed to select the funds managed by external investment managers who complement the Harbour strategies within the Active Growth Fund.</p>	<p>The Portfolio Manager (Di Leva) has over 10 years industry experience and joined Harbour in October 2018. Di Leva has been responsible for the Fund since its inception in November 2019.</p> <p>While Di Leva carries accountability for the Fund, the Fund leverages the experience of Harbour's equity, fixed income, foreign exchange and manager selection skills. This is complimented with macro, rates and asset allocation inputs. Di Leva Chairs the Harbour Asset Allocation Committee.</p> <p>This Fund draws broadly from the Harbour investment team. The tenure of the Fund's investment team is strong, with Andrew Bascand, Craig Stent, Shane Solly, Susanna Lee, Simon Pannett and Mark Brown, all providing inputs.</p> <p>George Henderson, who joined Harbour in June 2018, assumed some Portfolio Management responsibilities within the Fixed interest team for Harbour's fixed income portfolios. Hamish Pepper joined Harbour as the Fixed Income and Currency Strategist in July 2019 from Barclays and previously the RBNZ. Simon Momich joined the Harbour team in 2017 as an equities analyst, having previously worked as a lawyer at Simpson Grierson. Solly, Pannett, Henderson and Momich are CFA charter holders.</p> <p>Since commencing operations in 2010, the Manager has added resources, building out the team as required. The continual team development has seen new analyst additions in 2016, 2017, 2018 and 2019. Research IP notes that the Manager has one of the larger investment teams and pleasingly continues to invest in the investment teams and importantly the business. Research IP commends the Manager for looking beyond today and investing for the future.</p>
<p>Has the CIO/ PM personally invested in the Fund? Are they paying the same fees as other investors?</p>	<p>The Portfolio Manager, other staff and their families have significantly invested in the Active Growth Fund. This is invested alongside clients on a full fee-paying basis. Each year a portion of the investment staff's</p>	<p>Research IP believes that 'eating your own pudding' should be an aspect potential investors consider, when deciding to invest in any financial product.</p>

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	<p>discretionary pay is invested into Harbour Funds with a three-year vesting period.</p>	<p>Importantly, all investment personnel should pay the same fees as other investors, enhancing the alignment of interest with an investor's experience.</p> <p>Di Leva also has 0.04% equity ownership of Harbour, with Jarden the major shareholder (76.30%) and key staff owning the balance.</p>
<p>Why would you allocate to this fund?</p>	<p>The Fund has been designed for investors seeking a strategy which is actively managed at all levels (asset allocation and security selection). It suits investors with a medium to high risk tolerance. Harbour's principal competitive advantage is the quality and depth of our resources.</p> <p>Harbour has one of the largest and most experienced domestic investment teams in New Zealand. Our portfolio managers are supported by a team of analysts who produce proprietary qualitative company research, quantitative analysis and macroeconomic insights. This Funds combines the skills of all of Harbour's resources. We complement our skills with the skills of global asset managers for global asset classes. The Fund has a breadth of investments that are not available to retail investors. We look for investments that offer a superior risk/return profile.</p>	<p>With a commencement date of November 2019, Research IP believes you would be an early investor in a fund where you are heavily aligned to Harbour's internal investment capability. Harbour has a strong track record of delivering for its investors, partly reflected in the Manager's ability to grow its funds under management.</p> <p>Research IP believes the Funds' performance is reflective of the equity and fixed interest team's success, combined with the ability to maintain an appropriate mix of assets to meet the Fund's stated objective.</p> <p>The Manager expresses their set of core values across their website. Harbour believes these factors differentiate them from peers, across their product suite. Research IP believes that in conjunction with a disciplined approach to investing, the Manager, presents a clear rationale as to why a potential investor should consider investing in this Fund.</p> <p>Research IP believes the asset allocation has the potential to be dynamic and change quickly. In saying that, Research IP observes the Fund has methodically and incrementally implemented asset allocation changes to date.</p>
<p>What are key factors in the buying and selling decisions of the Fund?</p>	<p>The asset allocation committee drives the views we have as a firm across asset classes. This committee comprises Harbour's most senior investment professionals and utilises the inputs of independent global research partners who we have access to. Security selection is down to the specialist portfolio managers across various sectors, this is a highly specialised, sector specific approach.</p> <p>The overall impact of buying and selling decisions are modelled using the</p>	<p>The process builds from determining which growth asset classes are likely to achieve the Fund's objective. Research IP believes determining the choice of growth and defensive asset classes is a critical first step, which dictates security selection, risk management and what the final portfolio is invested in. The Manager then steps into security selection, where Harbour's specialists are utilised as well as external manager selection where necessary. Active risk management is</p>

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	<p>Bloomberg Professional system, which enables the Portfolio Manager to assess the change in VAR, overall risk, changes in factor and non-factor risk and assess scenarios in making every buy and sell decision across sectors.</p>	<p>then implemented through rates, FX and relative value trades to build the final portfolio.</p> <p>The Manager's process across all asset classes is underpinned by fundamental, bottom-up research. The Manager incorporates a mix of predominantly internal, with some external research. External sources include sell-side brokers, independent research houses, as well as other data sources, although the Manager relies heavily on in-house investment models.</p> <p>The Manager has developed a process that blends academic research and practical insights, to develop its edge. Short term fluctuations in price around the Manager's central thesis may not result in a change in the Manager's long-term view. Research IP notes the portfolio positions will typically be longer-term holdings, regardless of the asset class.</p> <p>Di Leva takes some guidance around portfolio construction from the equity and fixed interest teams but is ultimately responsible for investment decisions for the Fund.</p> <p>Di Leva will typically implement asset allocation decisions using Harbour or third party funds. He can also implement individual security decisions directly into the portfolio.</p> <p>Macro inputs for fixed interest and asset allocation are led primarily by Hamish Pepper, with Henderson and Brown also contributing. Equity inputs are primarily sourced from Andrew Bascand, Shane Solly and Craig Stent.</p> <p>The Manager's fundamental bottom up process starts with focused quantitative filtering. Research IP notes that Harbour has included proprietary ESG factors in their investment processes since inception. Importantly it's not a new part of the process, but well established and well and truly embedded.</p> <p>The Manager's analyst teams undertake significant and detailed qualitative reviews of securities, security types and asset classes. This enables the Manager</p>
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		<p>to understand the securities prior to investing in them. The qualitative input results in analysts scoring a series of factors, leading to a qualitative ranking.</p> <p>Both quantitative and qualitative scores become a key component of the monitoring process for equities. A deterioration of a security's score, or belief that other security types better capture the asset class characteristics, will assist in the sell decision process. Deterioration of key security scores will trigger a review, which can lead to reducing the position size or exiting the company.</p>
<p>What are the key drivers of the Fund's performance and risk measures?</p>	<p>The Fund's performance will be mainly driven by the market performance of the asset classes we invest in. These are Australasian Equities, Global Equities and fixed income.</p> <p>Within the Equity investments there is an emphasis on diversifying the sources of return and strategies with high alpha targets, recognising we expect a quarter of the Fund's return to come from alpha on beta allocations.</p> <p>Fixed income investments within this portfolio are mainly investment grade reflecting their role in offsetting equity risk. The fund can invest in high yield bonds for return generation, but this is capped at 15%.</p> <p>There are a range of other allocations we can make including using ETF's to take advantage of shorter term ideas or other active funds (Baillie Gifford Worldwide Discovery, T. Rowe Price Asia ex Japan, Western Asset Management Global Bonds, First Sentier Global Infrastructure). The risk measures that capture these investments are bond duration, credit risk, equity market risk, currency risk, liquidity risk. All are captured within our risk management process.</p>	<p>The Fund's performance reporting is available via the Research IP Quantitative Tear Sheet, on the Manager's website and the Disclose website. The Manager aims to outperform the market Benchmark and expects that the fund will deliver in excess of the Official Cash Rate (OCR) plus 5% p.a. over rolling five year periods, based on long term modelling assumptions. Research IP believes the market benchmark is an appropriate guide for shorter periods to assist investors to understand the return and risk profile of the fund.</p> <p>However, any meaningful evaluation of the Fund's performance is not achievable, due to the very short history.</p> <p>While Di Leva is a new member of the team and this is a very new fund, Research IP observes the Manager's process is one of the more methodical, well-structured and consistently implemented. Di Leva has access to an impressive range of tools as inputs to the portfolio construction process. Research IP believes the Manager is a significant user of third party data to feed decision making.</p>
<p>On what basis are the fees charged justified?</p>	<p>Harbour's fees are transparent. There are no buy/sell spreads or entry/exit fees. The Active Growth Fund has a total fee (excluding GST) of 0.95% p.a. including investment management, Supervisor, legal and audit fees as well as the costs of unit pricing, investment accounting and custody.</p>	<p>Research IP believes the Manager is transparent from a fees perspective, noting the 0.77% management fee excluding GST (with no performance fee) is disclosed in the Product Disclosure Statement (PDS) and via the Disclose</p>

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	<p>In addition, the Fund often invests in third-party products to gain exposure to niche asset classes. It fully rebates associated management fees. The Fund largely utilises fundamental research, not passive or smart beta strategies.</p>	<p>website and peer fee information is available on the Research IP tools page.</p> <p>Research IP observes that the manager's basic fee is lower than the average fee of sector peer relevant funds.</p> <p>Estimated other expenses of 0.19% (ex GST) are also reasonable when compared to peers. The Manager's disclosed fee is an estimated fee, with some variability, but likely to fall as FUM grows.</p> <p>Although no buy/sell spread is typically charged on this Fund, Harbour says that "in some market conditions, Harbour may apply a buy-sell spread to investments, withdrawals or switches in some Funds". Harbour believes they can typically cross trades and therefore minimise transaction costs. Research IP notes that that this may not always the case and existing unit holders may incur the cost of transactions resulting from investors entering or exiting the funds.</p>
<p>Describe the quality of the organisational and investment governance processes?</p>	<p>At the organisational level, Harbour's Board is led by an independent chair. Two other independents ensure client's best interests are put first, including a former experienced Portfolio Manager who chairs the Audit & Risk Committee. We have rigorous daily compliance procedures that ensure the portfolio is invested in adherence with its guidelines.</p> <p>We engage PWC to test the firm's operational and compliance processes. This assesses tasks such as the handling of client funds, investment management processes, trade execution, segregation of duties etc. This is an external and independent assessment of our processes.</p> <p>An internal risk committee periodically scrutinises the Portfolio Manager's decision making and risk allocation. In addition, top risk control systems are utilised (Bloomberg).</p>	<p>The Manager has a strong governance structure which starts with the composition of the Board and leadership of key Board Committees. In addition to the out-sourced functions, there are sufficient internal personnel in operational roles, to ensure that the investment team members can concentrate on managing the portfolios, with appropriate oversight.</p> <p>The use of external directors for the Harbour Board is considered to be in line with industry best practice. Research IP notes the use of independent members extends to Board delegated committees and investment committees. The use of external non-executive directors is strong, this excludes those representing the major shareholder, Jarden.</p> <p>Harbour has a formal investment committee, which meets on a monthly basis. Research IP believes the structured investment committee formalises a process and provides oversight to the investment decisions.</p> <p>The Manager uses Bloomberg AIMS for pre and post trade compliance. This is</p>

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		<p>used for the fund of fund structure and across all funds.</p> <p>There is also a clear allocation of responsibilities in the Fixed Income and equity teams, with appropriate backups.</p> <p>Research IP considers the Head of Compliance reporting directly to the Board and Audit Committee as being in line with global best practice, which is not always the case in New Zealand.</p>
<p>Describe the Manager’s ESG, Corporate Sustainability policies and engagement.</p>	<p>Harbour integrates ESG analysis into its security selections processes. We conduct an annual corporate behaviour survey with potential equity investments. The results of this survey directly impact the weight a company is held in the portfolio, with strong corporate citizens being held at a higher weight than poorly behaving corporates. This, along with our engagement of companies, helps to drive better outcomes. In fixed interest securities where the risk profile is asymmetric (either you are paid back or the company defaults) we will simply not hold a company’s debt if we believe its behaviour is egregious or it participates in a sector that makes investment untenable (examples include gaming). Harbour has been recognised for its ESG approach by strong scores by independent agencies UN PRI and RIAA.</p> <p>At Harbour, sustainability has been included in our key business objectives. In addition, the Active Growth Fund will only invest with managers who are UNPRI signatories.</p>	<p>Research IP notes that Harbour have included Responsible-Investing factors in their process since inception and is viewed positively. Notably Environmental (“E”) and Social (“S”) factors are treated differently to Governance (“G”). Governance is well established, the relationships between companies and the environmental and social aspects are less defined.</p> <p>The Manager’s internally developed ESG process is considered to be very robust and can be applied to a company, regardless of its domicile.</p> <p>Harbour is also a signatory to the UNPRI. Investors should be aware that ESG and the United Nations Principles of Responsible Investing (UNPRI) are relatively loose and that ESG integration has a broad range of interpretations.</p>
<p>Is there alignment with the interests of investors through ownership of the Manager and/or remuneration of the investment team?</p>	<p>Yes. A portion of the investment team’s discretionary remuneration is vested into Harbour funds over a period of three years. This discretionary pay is in turn determined by the Fund’s performance amongst other factors such as client satisfaction. Harbour is 24% owned by its employees. A long-term incentive scheme sees annual awards of further equity ownership for staff. The Portfolio Manager of the Active Growth Fund is a shareholder of Harbour.</p>	<p>By being partially owned by its employees and directors, there is strong buy-in from the team to work hard for the firm’s long-term success - this is good news for investors. The Manager’s continual development of and commitment to its staff is viewed as market leading.</p> <p>There is alignment between the bonus component of staff remuneration and the performance of the funds/portfolios.</p> <p>Research IP highlights that Harbour’s vesting of short-term incentives (cash bonuses) in the Manager’s suite of funds is market leading from a New Zealand perspective. This brings enhanced staff</p>

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		<p>tenure and alignment to the interests of investors.</p> <p>The support of largest shareholder, Jarden, is also significant, in both financial terms and operational support.</p>
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About Research IP

Research IP has provided client focused qualitative and quantitative financial product and security research since 2015. Research IP was also the consultant to the NZX wholly owned subsidiary FundSource, providing investment research to the New Zealand market since 2015.

Research IP is a specialist investment research provider which is used and trusted by investors & financial advisers for investment, KiwiSaver, Superannuation and other Pension schemes throughout the Asia Pacific region.

Research IP has grown its team and footprint by utilising the specialist skills of its analysts which include;

- ❖ data scientists,
- ❖ equity, bond and alternative asset specialists
- ❖ portfolio managers
- ❖ asset allocation analysts
- ❖ and ratings specialists.

Our experience has been gained in well over 20 years of roles across different facets of the industry, so we understand the key drivers and challenges for managers, as well as the impact for investors and the Financial Advice industry.

By leveraging the skills of specialists, Research IP is able to provide innovative and tailored financial services solutions to the marketplace. 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. We have strong philosophical alignment with John Hagel's work on the possibilities for "Disruption by Trusted Advisors" and John Kay's views in "Other People's Money: Masters of the Universe or Servants of the People".

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