



Qualitative Fund Research

Harbour Australasian Equity Focus Fund

December 2018



Australasian Equity Sector - Winner

About the Manager

Harbour Asset Management Limited (Harbour, the Manager) formed in December 2009 and commenced operations on January 2010. Harbour is principally owned by First NZ Capital Group Ltd (FNZ Capital), at 76.3%, and the balance being owned by Harbour employees, further details are available [here](#). 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 which can be viewed [here](#). Harbour operates a [governance framework](#) that is overseen by an experienced Board which includes two independent directors. Harbour provides full transparency and independence around the investing and management of clients' money. FundSource views corporate citizenship and governance frameworks as extremely important foundations from which a manager starts to engage with the client experiences.

Understanding clients is at the heart of any business and is critical to the longevity of an investment manager. Harbour specifically outlines what an investor can expect when investing with

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 Harbour Australasian Equity Focus Fund ("the Fund") is a 'long only' Trans-Tasman equity product which can hold company, sector, and high cash positions, as such the Fund will generally sit within the growth component of a balanced portfolio.

The Fund is a relatively concentrated portfolio comprising 15-25 companies and is unconstrained by a series of broad ranges across security size, sector or and cash positions. FundSource believes the Fund is best used as a 'satellite' strategy, as the Fund may not provide a broad diversified exposure to the Australasian share market.

The Fund is subject to equity market risk and movements (both positive and negative) in the

them, via a clearly articulated statement on [how they safeguard clients' money](#).

Harbour manages nine 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

The funds above are managed by a team of 12 in total, of which eight manage the equity funds. 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 FNZ Capital. Individual bios on the team at Harbour can be found [here](#).

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. The Fund is suited to higher risk profile investors with a minimum investment time frame of five years.

The Fund has the flexibility to hold material positions ranging from 65% - 100% in Australasian equities, and up to 35% in cash. The Fund's asset allocation decisions can have a material impact on performance, as well as security selection.

The Fund is a Portfolio Investment Entity (PIE). The Fund does not intend to pay any dividends, with income generated in the fund reflected in the unit price.

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>Harbour Asset Management currently manages over \$4.3 billion in equities and fixed interest on behalf of institutional and retail clients.</p> <p>As at 30 November 2018, the Harbour Australasian Equity Focus Retail Fund had \$19.9 million in total funds under management. The table below highlights the retail funds under management (FUM).</p> <p><i>As at 30 November 2018:</i></p> <table border="0"> <tr> <td>Australasian Equity Fund:</td> <td style="text-align: right;">\$ 240.8m</td> </tr> <tr> <td>Income Fund:</td> <td style="text-align: right;">\$ 77.0m</td> </tr> <tr> <td>Australasian Equity Income:</td> <td style="text-align: right;">\$ 35.6m</td> </tr> <tr> <td>Australasian Equity Focus Fund:</td> <td style="text-align: right;">\$ 19.9m</td> </tr> <tr> <td colspan="2"> </td> </tr> <tr> <td>NZ Equity Advanced Beta Fund:</td> <td style="text-align: right;">\$ 157.4m</td> </tr> <tr> <td>Core Fixed Interest Fund:</td> <td style="text-align: right;">\$ 159.6m</td> </tr> <tr> <td>Corporate Bond Fund:</td> <td style="text-align: right;">\$ 375.3m</td> </tr> <tr> <td>T.Rowe Price Global Equity Growth Fund:</td> <td style="text-align: right;">\$ 52.4m</td> </tr> <tr> <td>Real Estate Investment Fund:</td> <td style="text-align: right;">\$ 4.2m</td> </tr> <tr> <td>Manager Total Retail FUM:</td> <td style="text-align: right;">\$1,122.2m</td> </tr> </table>	Australasian Equity Fund:	\$ 240.8m	Income Fund:	\$ 77.0m	Australasian Equity Income:	\$ 35.6m	Australasian Equity Focus Fund:	\$ 19.9m			NZ Equity Advanced Beta Fund:	\$ 157.4m	Core Fixed Interest Fund:	\$ 159.6m	Corporate Bond Fund:	\$ 375.3m	T.Rowe Price Global Equity Growth Fund:	\$ 52.4m	Real Estate Investment Fund:	\$ 4.2m	Manager Total Retail FUM:	\$1,122.2m	<p>The business has significant funds under management across its fund suite which spans across equities and fixed interest asset classes. FundSource notes the Harbour Australasian equity retail funds invest in wholesale funds.</p> <p>The Harbour Australasian Equity Focus Fund has been available since 10 April 2014. The Fund consists of retail and wholesale investors, of which ~75% of the funds under management (FUM) is wholesale and ~25% is retail investors.</p> <p>Despite being a relatively concentrated fund, the Manager doesn't have a fixed capacity limit, at which the Manager will soft close the Fund. FundSource notes that capacity is currently not an issue for the wholesale or retail version of the Fund.</p> <p>The Fund provides investors with Harbour's best research ideas, in a relatively concentrated portfolio.</p>
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<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>Shane Solly is the Portfolio Manager for the Harbour Australasian Equity Focus Fund. The broader Harbour investment team has worked together since Harbour's inception in December 2009 and earlier at AllianceBernstein NZ prior to the closure of their NZ business.</p>	<p>The Portfolio Manager (PM) Solly has a solid 27 years industry experience, and shorter manager tenure at 3 years. Solly assumed responsibility for the Fund when he started with Harbour Asset Management.</p> <p>While Solly carries accountability for the Fund, the full equity investment team provides analyst support. Ultimately this Fund leverages the best ideas of all Harbour equity funds.</p> <p>The tenure of the investment team is strong, with Andrew Bascand, Craig Stent, Oyvinn Rimer, and Kevin Bennett being at the Manager since commencement.</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 and recently in 2017. FundSource notes that the Manager has one of the larger equity investment teams, and pleasingly continues to invest in the investment teams, and importantly the business. FundSource commends the Manager for looking beyond today, and investing for the future, including that of investors.</p>																						
<p>What objective is the Manager trying to achieve?</p>	<p>The investment objective of the Harbour Australasian Equity Focus Fund is to deliver medium to long term capital growth by investing in quality businesses with strong growth prospects. While the Fund is constructed on a benchmark-agnostic basis (driven by stock characteristics rather than the weightings in benchmark stock market indices) the Harbour Equity Focus Fund has an objective to out-perform a 50/50 S&P NZX50/S&P ASX200 reference benchmark over rolling 3-year periods.</p>	<p>The Manager does not focus on companies that are included in a benchmark, rather the Manager uses benchmarks to assist in managing risk. Core to the Fund achieving its objective is selecting quality businesses. The Fund is a growth fund, and the Manager looks for companies that it believes will grow faster than the market or sector average.</p> <p>The Manager states the primary objective is to outperform its hybrid 50/50 mix of the S&P NZX50/S&P ASX200 over rolling 3-</p>																						

		<p>year periods. The rolling 3-year reference is a little different to market peers, a large number of New Zealand fund managers don't reference a timeframe in a funds objective. In saying that, FundSource notes the Manager doesn't state the quantum of expected outperformance, above the fund's hybrid benchmark.</p> <p>The Fund's performance history while relatively short, continues to develop, given the Fund has a little over a four-year track record. Compared to the average of 26 peer funds in the FE Analytics NZMI Equity Australasia sector, the Fund has consistently performed above peer average.</p>
<p>What does the Manager invest your money into?</p>	<p>The Harbour Australasian Equity Focus Fund is generally fully invested in higher growth New Zealand and Australian stocks listed on the New Zealand or Australian Exchanges. The underlying securities are held by the Fund's custodian Trustees Executors Limited.</p>	<p>The Fund predominantly invests in Australasian equities and looks to benefit from a relatively concentrated portfolio of quality companies the Manager believes will grow at a faster rate than the market of sector peers. FundSource notes the Manager employs a process that underpins the full suite of equity funds. The process highlights some key differences in the Manager approach to investing, incorporating several proprietary aspects, which FundSource believes are strong positives. Differentiating one manager from another can be difficult, Harbour have developed and refined a series of factors, that can be applied consistently, that are commonly applied across all fund managers.</p> <p>The Fund is suitable for investors who want an actively managed, benchmark agnostic, Australasian equity fund. Investors should be aware the Fund performance will be characterised by exposure to a concentrated portfolio, which can hold significant portfolio positions, and sector allocation.</p> <p>The Manager actively manages currency exposure to the Australian dollar. Hedging is implemented via forwards and currency swaps.</p>
<p>What are the inherent risks imbedded in the Fund?</p>	<p>The Harbour Australasian Equity Focus Fund invests in 15-25 New Zealand and Australian stocks.</p> <p>This means that the Harbour Australasian Equity Focus Fund tends to have higher risk and volatility than some other Funds. The Fund's skew to growth stocks generates strong returns over the medium term. But there may be periods of time when growth stocks fall out of favour with the broader investment market, increasing Fund return risk. The Fund's tactical hedging of Australian Dollar investments back to the New Zealand Dollar may increase return risk.</p>	<p>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.</p> <p>Given the relatively concentrated number of stocks in the portfolio, and potential for a single position to be a significant proportion of the Fund, stock specific risk is higher than other Harbour equity funds. The Fund is likely to take significant sector bets, relative to the underlying indices.</p> <p>FundSource notes the Funds volatility is higher than the FE Analytics sector peer average. Which due to the Funds concentration is expected.</p>

<p>Why does the Manager believe the future prices of the Fund's investments will vary?</p>	<p>This Fund is invested in the New Zealand and Australian stocks. Stock returns can go up and down and can produce periods of negative return. Academic research shows that, after careful research, investing in the quality growth companies that the Harbour Equity Focus Fund invests in, is one of the best ways to grow wealth over time.</p>	<p>FundSource observes the Manager's process is one of the more methodical equity processes, and the processes are well structured and consistently implemented. The Manager's process 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, 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 as a focused growth manager. Deep fundamental company research underpins the Fund's investments. Short term fluctuations in price around the Manager's central thesis may not result in a change in the Manager's long-term view of a company. This is likely to lead to short term dislocations in performance compared to the Fund's hybridised benchmark.</p> <p>FundSource notes that despite being a growth manager, the portfolio positions are typically longer term holding at 3 years or more. The concentrated nature of the portfolio is not likely to provide an opportunity for the Manager to hide, should a company perform differently than expected.</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>The Harbour Australasian Equity Focus Fund has the objective of generating medium to long term capital growth through the market cycle for investors, by investing in quality businesses with strong growth prospects. The Harbour Australasian Equity Focus Fund provides an efficient way for investors to invest in some of the best New Zealand and Australian (indeed global) growth companies, with risk managed by Harbour's proven, professional investment team. Research shows that investing in such growth companies is one of the best ways to grow wealth over time. The Harbour Australasian Equity Focus Fund also provides a useful investment option for those investors that want to invest in local shares, but want their investment determined by underlying stock investment characteristics rather than mechanistic benchmark stock index construction which reflects the biggest, but not always the best companies.</p>	<p>The Fund's return to investors, available on the Manager's website and the Disclose website, highlights the Funds' performance compared to the Funds hybrid market index, being 50% S&P/NZX 50 and a 50% S&P/ASX 200 Index (which is 50% hedged into NZ dollars), clearly showing the Fund's annual outperformance and underperformance, compared to its hybrid benchmark.</p> <p>FundSource believes the Funds' performance reflects security selection of Solly, and the impact of the Managers' growth style bias, while leveraging the input of the investment team and through the Investment Committee.</p> <p>The Manager outlines its case as to why Harbour should be considered by an investor. The Manager provides a series of links that express their set of core values. Harbour believes these factors differentiates them from peers, across their product suite. FundSource 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>How does the Manager decide to buy or sell investments?</p>	<p>Harbour selects stocks for inclusion in Harbour Australasian Equity Focus Fund using its well-established and proven investment process. The process begins with the quantitative analysis of factors that have historically been associated with growth-driven</p>	<p>The Manager's fundamental bottom up process starts with a focused approach to quantitative filtering. This distils down to the three key factors that are company specific, rather than macro focused. This starts the company ranking process. FundSource notes that Harbour have</p>

	<p>performance. Data for a wide range of New Zealand and Australian companies are ranked considering:</p> <ul style="list-style-type: none"> • key company-specific growth factors, • underlying company financial quality, and • company Environmental, Social and Governance (ESG) practices. <p>Based on regular, rigorous company and industry meetings Harbour's analyst team rate each company.</p> <p>The combination of the quantitative research and analyst ratings results in a ranking of all stocks. From this process the Harbour Australasian Equity Focus Fund only invests in the Harbour investment team's 15-25 best research ideas. If a stock becomes a best research idea it may be introduced. If a stock is no longer a best research idea it is removed from the portfolio.</p>	<p>included ESG factors in their process since inception, and are proprietary, rather than a subscription-based service. Importantly it's not a new part of the process, but well established and well and truly embedded.</p> <p>The Manager is not a quantitative manager, as the analyst team undertakes significant and detailed qualitative reviews of all companies, which enables the Manager to understand the company and its growth prospects, prior to investing in them. The qualitative input results in analysts scoring a series of factors, leading to a qualitative ranking.</p> <p>Given the Funds relatively concentrated portfolio analysts are required to hone down their best ranked stock to the 2-3 best ideas, which will be considered for the Fund. The PM takes some guidance around portfolio construction from the Australasian Equity Fund. FundSource notes this Fund can take a different view to its more diversified sibling. The Manager can hold cash if no opportunities can be identified, that is there is no padding out the number of companies in the portfolio.</p> <p>Both quantitative and qualitative scores become a key component of the monitoring process. A deterioration of the company score will assist in the sell decision process. Deterioration of key company scores will trigger a review, which can lead to reducing the position size or exiting the company.</p> <p>Due to the concentrated nature of the portfolio, the Manager must critically evaluate each position regularly, and exit companies that have or are unlikely to meet expected growth expectations, or another company is expected to provide a better opportunity.</p>
<p>Has the CIO/ Portfolio Manager personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>Yes</p>	<p>FundSource believes that the interests of investment personnel are better aligned to those of the investors, when investment personnel are significantly invested, and at the same fees.</p> <p>Effectively the PM is eating their own cooking, bringing strong investor alignment. FundSource believes the alignment is stronger when investment personnel 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 Harbour Australasian Equity Focus Fund is benchmark unaware. The weighting to individual securities within the Fund is not made with reference to any benchmark.</p> <p>Tracking Error: NA Cash Allocation: 0% to 35% Single Stock Limit: 0% to 15%* Sector Limits: NA Number of stocks 15 – 25</p> <p>Regional Limits: Australian Equities 0% to 100%</p>	<p>Due the relatively concentrated portfolio, individual stock positions are likely to have a significant impact on the overall return of the portfolio, especially over shorter time periods, say, one year.</p> <p>The Portfolio Manager has absolute discretion to invest across what are relatively wide allocation limits. The Fund has size restrictions built around the market capitalisation of a company, to manage risk. This is in spite of the Fund being benchmark unaware. The methodical approach to risk management is reflective</p>

	<p>New Zealand Equities 0% to 100% Currency Hedging 10% to 90%</p>	<p>of the Manager's complete process to investing client money. The Portfolio Manager leverages the analyst team to identify conviction in companies, that might be suitable for the portfolio.</p> <p>Cash is a result of reduced opportunity offered by companies, rather than a conscious asset allocation decision. Hedging reflects the Manager's views around country, sector, and company specific factors. Changes in hedging are likely to be significant, that is 5-10% steps or greater, rather than small incremental changes.</p> <p>The Funds flexibility is expected to result in the return of the Fund differing significantly from that of the Managers chosen benchmark. Accordingly, investors seeking a benchmark-like return may not be suited to the Fund.</p>
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>The Fund's fee structure reflects its concentrated, best research ideas and investment philosophy. To achieve a relatively consistent, relatively high level of returns over time, Harbour maintains a detailed fundamental (company and industry visit-based) equity research approach. This research includes rigorous and, sometimes, expensive fundamental research with site visits globally and research input from differentiated third party global thought leaders.</p>	<p>The Funds' basic fee is in line with the FE Analytics NZMI Equity Australasia sector peer average and is below the average fee charged by peer growth funds in the sector.</p> <p>The Fund is one of two Harbour funds to charge a performance fee. Detailed explanation relating to the performance fee can be found in the Other Material Information Documents. This is available on the Manager's website, and the Disclose website.</p> <p>FundSource believes that a fund manager should only charge performance fees when their base management fee is significantly below the market average fee. Notwithstanding this view, performance fee calculations are complex. FundSource notes the Fund has capped the performance fees at 10% of the outperformance. FundSource highlights there should be a direct alignment between the manager's remuneration and the performance of the Fund relative to its benchmark. This is the case for this Fund.</p>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>Harbour Asset Management is recognised by a wide range of investment gatekeepers as having "best in class" organisational and investment governance processes. Harbour's organisational and investment governance processes are audited annually by external auditors. Harbour has a number of large government and financial services clients that regularly review its organisational and investment governance processes. Harbour has a strong commitment to improving the governance, environmental and social policies and practices of New Zealand companies, and embraces those practices within its own business.</p> <p>The Board of Harbour has appointed a third independent director, Linda Jenkinson in 2018 One of the independent directors is</p>	<p>The Manager has a strong governance structure which starts with the composition and expansion 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.</p> <p>The use of external directors for the Harbour Board is considered to be in line with industry best practice. FundSource 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, First NZ Capital.</p>

	<p>Graeme Wong who chairs the Board and the other is Wayne Stechman who chairs the Audit Committee. The entire Board is included in approving remuneration. The Head of Compliance, Debbie Bourne, reports directly to the Board and Audit Committee. The other Board members are Bill Trotter and Richard Young representing FNZC and Andrew Bascand, Managing Director of Harbour.</p> <p>Other than the Managing Director, the Board has no involvement in investment decisions relating to the Harbour Funds and there is no Investment sub-Committee of the Board. Equity portfolio managers meet at least monthly (and more often as required) to discuss the quantitative ratings of all stocks in our investable universe and to review the qualitative assessments by each sector analyst.</p>	<p>Harbour has a formal investment committee, which meets on a monthly basis, and is chaired by Chris Di Leva, who is Harbour's Multi Asset Specialist. FundSource believes the structured investment committee process formalises a process and provides oversight to the investment decisions.</p> <p>FundSource 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>The use of environment, social and governance (ESG) in the research process, since the Manager's inception, is viewed positively. Investors should be aware that ESG and the United Nations Principles of Responsible Investing (UNPRI) are relatively loose and is not seen as a negative screen for filtering companies. 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>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>The investment team invests alongside unitholders by personally owning units in the Fund. In addition, the performance of the Fund against its objective's influences investment team short- and long-term remuneration.</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. FundSource believes the vesting of short-term incentives, cash bonuses, in the Manager's suite of funds as market leading from a New Zealand perspective. This bring enhanced staff tenure and alignment to the interests of investors.</p>

Conclusion and Rating

The Fund provides an investor with exposure to a relatively concentrated Australasian equity portfolio that reflects the best investment ideas across all of the Manager's equity funds. The Fund is agnostic to a company's market capitalisation and sector; however, a company's market capitalisation is used to assist in managing portfolio risk, mostly by determining the size a single security can represent in the portfolio. Investors should note that individual securities can still be significant. Cash holdings are reflective of the opportunity to buy growth companies across Australasia, rather than an active asset location decision. Investors should expect this Fund's portfolio positioning to be materially different to that of the Fund's hybrid reference benchmark.

The Manager is cognisant of the capacity that can be managed in this concentrated Fund. FundSource highlights that capacity is not an issue, from a retail or wholesale level. Further, the Fund's concentrated portfolio holding is not subject to liquidity issues, despite overall the Manager managing over \$3.5 billion, in total.

FundSource's conviction in the Manager is underpinned by its commitment to strong governance principles, and continued growth of non-executive directors, the strength of its investment team, since inception, and retention of key staff over time, noting there has been a low

level of staff turnover since 2010. The Manager has a highly methodical and repeatable process. FundSource believes the Manager's proprietary ESG process, embedded since inception, to be market leading. FundSource would consider the use of a formal investment committee positively but recognises other aspects of the investment and corporate governance framework are very strong.

The Manager's basic fee is in line with the peer average in the FE Analytics NZMI Equity Australasia sector. FundSource believes there is scope for the Manager to review basic fee as FUM grows, to reflect the use of a performance fee. FundSource believes performance fees can be appropriate when the calculation methodology remains aligned to an investor experience. FundSource believes the Fund's performance fee is well balanced between rewarding the Manager for outperformance and reflecting an investors experience.

FundSource recommends that investors carefully consider that the Managers focused high conviction approach to managing Australasian equities, meets their investment needs and objectives.

FundSource Rating: **AAA**

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

Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score
Corporate & Investment Governance	15%	4.75 / 5
Investment Philosophy & Process	20%	4.60 / 5
People	25%	4.67 / 5
Portfolio Construction & Implementation	15%	4.00 / 5
Risk Management	15%	4.00 / 5
Investment Fees	10%	3.14 / 5
Overall Average Score:		4.31 / 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

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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.



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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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