



RESEARCH IP

## Qualitative Fund Research

Harbour Real Estate Investment 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%	3.50	/ 5
Investment Philosophy & Process	20%	3.40	/ 5
People	25%	3.67	/ 5
Portfolio Construction & Implementation	15%	3.17	/ 5
Risk Management	15%	3.80	/ 5
Investment Fees	10%	3.29	/ 5
<b>Overall Average Score</b>		<b>3.50</b>	<b>/ 5</b>

## 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, 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 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 Real Estate Investment Fund – Research IP Quantitative Tear Sheet**

<https://platform.research-ip.com/funds/68517957>

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

[Factsheet](#)

[Report](#)

[PDS](#)

[Articles / Views](#)

### The Fund

Objectives	Harbour Real Estate Investment Fund
Investment Objectives	The Fund will predominantly be invested in sustainable dividend generating companies, which derive their economic value from owning traditional real estate assets with appropriate financial and governance structures in place. In addition, the Fund may invest in shares of companies that derive their economic value from the control of real estate assets, but do not meet the strict definition of listed property securities or REITs.
Benchmark	S&P/NZX All Real Estate Index
Alpha Objective	To exceed the benchmark return plus 1% per annum over the medium term
Management Fee	0.55% management fee (GST exclusive)
Performance Fee	No Performance Fee
Estimate of Total Fund Charges	0.72% (ex GST) - 2 March 2020
Minimum Timeframe	Medium to long term investment horizon. Minimum 5 years
Portfolio Structure	Portfolio Investment Entity (PIE)
Distributions	This Fund intends to pay 6 monthly distributions in March & September
Strategy Inception	1 October 2018

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The Harbour Real Estate Investment Fund (“the Fund”) is benchmark unaware. The weighting to individual securities within the Fund is not made with reference to any benchmark, this is a best ideas portfolio.

Factor	Lower Limit	Upper Limit	Reference
<b>Tracking Error</b>			n/a
<b>Cash Allocation</b>	0%	20%	2.5%
<b>Number of stocks</b>	15	35	
<b>Single Stock Limit</b>	0%	BM +10%	
<b>Sector Limits</b>			
<b>Listed Property Securities</b>	50%	100%	85%
NZ	50%	100%	
Australia	0%	25%	
International	0%	10%	
<b>Australasian Equities</b>	0%	30%	12.5%
<b>Cash &amp; cash Equivalents</b>	0%	20%	2.5%
<b>New Zealand Fixed Interest</b>	0%	10%	0%
<b>International Fixed Interest</b>	0%	5%	0%
<b>International Equities</b>	0%	10%	0%
<b>Unlisted Property</b>	0%	10%	0%
<b>Currency Hedging</b>	75%	100%	0%
<b>Net Delta Weighted Exposure to Derivatives</b>	0%	30%	

Despite being a relatively diverse, at approximately 30 securities, the portfolio can have material positions, that is some individual stock positions are likely to have a significant impact on the overall return of the portfolio, especially over shorter time periods (e.g. one year).

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 somewhat benchmark unaware. The methodical approach to risk management is reflective 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.

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. Currency is managed at the portfolio level rather than at an individual stock level.

The Fund’s flexibility is expected to result in the return of the Fund differing significantly from that of the Manager’s chosen benchmark. Accordingly, investors seeking a benchmark-like return may not be suited to the Fund.

## Funds Under Management (FUM)

FUM	Harbour Real Estate Investment Fund
<b>Fund</b>	\$17m
<b>Strategy</b>	\$17m
<b>Sector</b>	\$17m
<b>Manager (Australasia)</b>	\$5,018m
<b>Manager (Total Global)</b>	\$5,018m

\*at 29 February 2020

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## The Risks

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.

Given the number of stocks in the portfolio, and potential for a single position to be a significant proportion of the Fund, stock specific risk is relatively high. The Fund is likely to hold non benchmark positions, e.g. infrastructure and take significant sector bets, relative to the underlying indices.

Research IP notes the Fund's volatility is higher than the sector peer average. Which is in part expected due to the Fund's concentrated portfolio.

The fund cannot borrow, use leverage, or short sell securities, but derivatives can be used. The Fund also has the ability to participate in stock lending programmes.

## Using this Fund

The Fund is a 'long only' Trans-Tasman real estate product which will generally sit as a satellite holding within the growth component of a balanced portfolio.

The Fund has the flexibility to hold material positions ranging from 65% - 100% in Australasian real estate securities, and up to 30% in cash. The Fund's asset allocation decisions can have a material impact on performance, as well as security selection.

## What the manager says?

Insight	Manager view	Research IP opinion
<p><b>Who is accountable for managing the fund?</b></p> <p><b>Is the investment teams work history relevant to the funds they manage?</b></p>	<p>Shane Solly is the Portfolio Manager for the Fund. The broader Harbour investment team have worked together since the firm's inception in 2010 and before that, at Alliance Bernstein NZ prior to the closure of the NZ business.</p>	<p>The Portfolio Manager (Solly) has a solid 28 years of industry experience. Solly has held responsibility for the Fund since the Funds inception date and has been with Harbour for 6 years.</p> <p>Solly carries accountability for the Fund, with support from the full equity investment team. Ultimately this Fund also leverages the best income focussed ideas of Harbour investment team.</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 investment operations in 2010, the Manager has added resources, building out the team as required. The continual team development has seen new analyst additions on a consistent basis. Research IP believes some additional REIT experience within the team would be a beneficial support for Solly.</p> <p>Solly is responsible for the portfolio decisions and a most securities in the</p>

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		<p>portfolio. Research IP notes this Fund is influenced more by one individual, Solly, than other Harbour equity portfolios. Research IP believes this heightens key person risk.</p> <p>Research IP 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. Research IP commends the Manager for looking beyond today, and investing for the future, including that of investors.</p>
<p><b>Has the CIO/ PM personally invested in the Fund? Are they paying the same fees as other investors?</b></p>	<p>The Portfolio Manager and a number of the analysts have a meaningful portion of their personal assets invested alongside clients on a full fee-paying basis. Each year a portion of the investment staff's discretionary pay is invested into Harbour Funds with a three-year vesting period.</p>	<p>Research IP 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>Research IP believes the vesting of discretionary remuneration of Harbour staff is a strong enhancement to the alignment with investors. Naturally Harbour staff want to maximise their outcomes, without excessive risk.</p> <p>Harbour also has the confidence to use this fund as an equities (property) allocation in its diversified strategies.</p>
<p><b>Why would you allocate to this fund?</b></p>	<p>The Fund's objective is to capture the relatively predictable income yield and medium-term capital growth characteristics of investing principally in listed real estate assets and enhance diversification and return potential against the S&amp;P/NZX/All Real Estate benchmark. Over time investing in Real Estate securities has generated low volatility near term income and medium-term compound capital growth. The best returns and risk management results come from actively taking advantage of secular and cyclical trends in real estate. The Fund aims to generate returns that exceed its S&amp;P/NZX/All Real Estate index plus 1% per annum over the medium term. The Fund predominantly invests in sustainable dividend generating securities, which derive their economic value from owning traditional real estate assets with appropriate financial and governance structures in place, which provides a sound base for income yield. The Fund enhances</p>	<p>The Manager outlines its case as to <a href="#">why Harbour</a> should be considered by an investor. Harbour has a very consistent approach across its fund's management team. 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>The Fund will typically hold a portfolio comprising approximately 30 companies and is unconstrained by a series of broad ranges across security size, sector and cash positions. Research IP believes the Fund is suitable as a satellite holding in a portfolio, however the track record should see this used in conjunction with another REIT based fund.</p> <p>The Fund is subject to equity market risk and movements (both positive and negative) in the share prices of the</p>

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	<p>returns and capital growth by favouring investments that benefit from secular trends such as rapid technology change, medical advancement, demographic change, urbanisation and the rise of sustainability. The Fund may invest in New Zealand and Australian listed securities that derive their economic value from the control of real estate assets that are not included in listed property benchmark indices, international listed real estate securities, unlisted New Zealand and Australian property securities and debt and convertible securities, where such investments represent attractive risk adjusted investments for the fund. To be included, underlying profit certainty needs to be high. Examples include property management, seaports, toll roads, airports, aged care &amp; retirement villages and data centres real estate investments.</p>	<p>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.</p> <p>Research IP also notes that although this Fund will have a strong bias to NZ property, it also has the ability to own equity, debt and convertible securities (including infrastructure), as well as use derivatives (options and exchange traded futures).</p>
<p><b>What are key factors in the buying and selling decisions of the Fund?</b></p>	<p>The Fund's investment process blends a combination of active company research and use of a quantitative filter. To enhance expected returns and manage risk the Fund's investment process seeks to identify securities with prospective income yield and capital growth which is under-appreciated by the investment market. The fund holds investments in differing proportions than the Fund's benchmark and may invest in stocks that are not included in the Fund's benchmark. The portfolio invests in stocks Harbour's analysts have researched and have a high belief will perform over the medium to longer-term. A higher rated company will have a higher weighting in the Fund. The key factors are the analyst's ratings and views on a particular stock alongside the quantitative filter which provides information signals on the investment positions. Harbour selects stocks for inclusion in Harbour Real Estate Investment Fund using its well established and proven investment process. The process begins with the quantitative filtering of factors that have historically been associated with growth driven performance. Data for a wide range of New Zealand and Australian companies are ranked considering:</p> <ul style="list-style-type: none"> <li>• key company specific growth factors,</li> <li>• underlying company financial quality, and</li> </ul>	<p>Research IP observes the Manager's process is one of the more methodical, well structured, and consistently implemented across asset classes, with some minor nuances. The Manager's process is underpinned by fundamental, bottom-up research. The Manager compliments this by its strong internal research, with some external research inputs. 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's process blends academic research and practical insights, to develop what the Manager considers as its edge as a focused growth manager. Deep fundamental company research underpins each security in the portfolio. Research IP notes that Solly takes on a lot of this role as it applies to REITs.</p> <p>Short term fluctuations in stock prices may not impact the Manager's central long-term thesis on a company, and therefore may not result in any portfolio activity. Alternatively, the market can provide a catalyst to buy additional shares or take some profits and sell some shares. This is a relatively diversified portfolio consisting of approximately 30</p>

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	<ul style="list-style-type: none"> <li>company Environmental, Social and Governance (ESG) practices.</li> </ul> <p>Based on regular, rigorous company and industry meetings Harbours analyst team rate each real estate stock in its investable universe. The combination of the quantitative filter and analyst rating results in a ranking of all stocks. From this process the Harbour Real Estate Investment Fund invests in a diversified portfolio of securities that are expected to generate sustainable and growing dividend income and capital growth over the medium term. If a stock moves to the top of the ranking in the real estate investment universe it is introduced (if not already held in the Fund) or its weighting is increased. If a stock moves to the bottom of the ranking in the real estate investment universe it is introduced (if held in the Fund) or its weighting is decreased. Stocks will also be replaced (or weightings reduced) by other stocks which represent more compelling investments. Cash and fixed interest investments will be included where there is insufficient conviction in stock investments.</p>	<p>companies, but with the ability to hold some high conviction positions. The portfolio is likely to be biased to New Zealand names. The Australian REITs and companies not typically known as REITs, but derive revenue from property related activities, e.g. infrastructure, will be a source of diversification of the portfolio return.</p> <p>Research IP notes that as a fund that invests in to real estate assets, which is typically biased to income generation, the Manager still looks at them through its growth lens. The portfolio holdings are typically longer term holdings at 3 years or more and Solly is prepared to be patient. Research IP believes this may lead to periods where performance is different to its small peer universe of approximately 6 funds.</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. It is the start of the company ranking process.</p> <p>Solly employs a number of quantitative techniques, as well as leveraging views and themes expressed by the broader Harbour investment team. 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. 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>Selling of stocks in the portfolio is a direct result of Harbour’s proprietary scoring and stock ranking system. As a company falls from green, to amber to red sections of the stock scores the size of the position is reduced until it hits the lowest scoring or red section of the stock list. This is not a mandatory signal to sell, but portfolio holdings in the red section are typically turnaround stories where the Manager</p>

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		believes the company and its current pricing will improve, and the manager has sufficient conviction to invest early.
<p><b>What are the key drivers of the Fund's performance and risk measures?</b></p>	<p>The Fund's returns are predominantly derived from investing in a diversified portfolio of New Zealand and Australian real estate securities which can sustain income yield and grow capital over time. Real estate's securities generate relatively predictable, low volatility income and capital gains over time through the control of physical real estate assets. The fund invests in stocks that, based on Harbour's research, can sustain and grow earnings and dividends faster and/or for longer than the market expects. The fund is biased to stocks that benefit from secular trends such as rapid technology change, medical advancement, demographic change, urbanisation and the rise of sustainability. The fund utilises a broad investment universe and aims to enhance returns and reduce risk by diversifying away from the S&amp;P/NZX/All Real Estate index. Inclusion of a stock and the proportion of the portfolio an individual stock represents in the portfolio is a function of Harbour's active research-driven investment process (including quantitative filtering and deep fundamental company analysis) and Harbour investment analyst conviction. The Fund's skew to real estate stocks that benefit from structural growth generates solid near-term income and capital growth over the medium term. But there may be periods of time when real estate stocks fall out of favour with the broader investment market, increasing Fund return risk. The Fund will actively take advantage of near-term mispricing of portfolio investments. The Fund will also hold cash and debt securities to generate returns.</p>	<p>The Fund's performance reporting is available via the <a href="#">Research IP Quantitative Tear Sheet</a>, on the <a href="#">Manager's website</a> and the <a href="#">Disclose website</a>. Highlighting the Funds' performance over time and the volatility of that performance.</p> <p>This is a diversified property portfolio strategy, with approximately 30 securities, that has some significant portfolio weights to single securities. This can be as high as benchmark weight <math>\pm 10\%</math>. With this in mind, performance has the potential to be volatile over shorter periods and vary markedly from the benchmark over the midterm of three to five years. The Fund has insufficient track record to make meaningful performance evaluations. However, Research IP notes the process employed by Solly leverages his 15+ years running property based funds.</p> <p>Research IP believes the Funds' performance reflects Solly's security selection, and the Manager's growth style bias, while leveraging the input of the investment team and internal Investment Committee.</p>
<p><b>On what basis are the fees charged justified?</b></p>	<p>Harbour's fees are transparent. There are no buy/sell spreads or entry/exit fees. The Real Estate Investment Fund has a total fee (excluding GST) of 0.72% p.a. including investment management, Supervisor, legal and audit fees as well as the costs of unit pricing, investment accounting and custody.</p>	<p>The Fund's basic fee is slightly lower than its very small sector peer average. The Fund does not charge performance fees. Further information is disclosed in the <a href="#">Product Disclosure Statement (PDS)</a> and via the <a href="#">Disclose website</a> and peer fee information is available on the <a href="#">Research IP tools page</a>.</p> <p>Research IP highlights there should be a direct alignment between the manager's</p>

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		<p>remuneration and the performance of the Fund relative to its benchmark. This is the case for this Fund.</p> <p>Estimated other expenses of 0.17% (ex GST) are also reasonable when compared to peers.</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><b>Describe the quality of the organisational and investment governance processes?</b></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 &amp; Risk Committee. We have rigorous daily compliance procedures that ensure the portfolio is invested in adherence with its guidelines. 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. Lastly, an internal risk committee periodically scrutinises the Portfolio Manager’s decision making and risk allocation.</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 outsourcing some functions, there are sufficient internal operational personnel, which continues to grow. This ensures the investment team 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. The use of external non-executive directors is strong, this excludes those representing the major shareholder, Jarden. Research IP notes the use of independent members extends to Board delegated committees, and investment committees.</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>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>

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		<p>The Manager uses Bloomberg AIMS for pre and post trade compliance. This is used across all funds.</p>
<p><b>Describe the Manager's ESG, Corporate Sustainability policies and engagement.</b></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.</p> <p>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.</p>	<p>Research IP notes that Harbour have included <a href="#">Responsible-Investing</a> 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. The Manager's ESG process is applied to this fund, as it is to all Harbour funds.</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><b>Is there alignment with the interests of investors through ownership of the Manager and/or remuneration of the investment team?</b></p>	<p>Yes. The investment team invests alongside unit unitholders by personally owning units in the fund. In addition, the performance of the fund against its objectives influences investment team short and long term remuneration. 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.</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. Research IP believes that Solly has a reasonable level of personal investment in the Fund, largely via vested short term incentives. This is viewed as a strong alignment to investor experience.</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 tenure and alignment to the interests of investors.</p>

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Insight	Manager view	Research IP opinion
		The support of largest shareholder, Jarden, is also significant, in both financial terms and operational support.

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

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

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**Contact:**

[www.Research-IP.com](http://www.Research-IP.com)

Email: [info@research-ip.com](mailto:info@research-ip.com)

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