



# Qualitative Fund Research

Affluence Investment Fund

March 2018

## About the Manager

Affluence Funds Management Limited (the Manager, Affluence) is an Australian registered company that was founded in 2015. Affluence's focus is on delivering superior long-term investment performance and in providing quality education and investment ideas for their investors. The Manager has provided a brief profile available [here](#).

Affluence highlight a series of [investment values](#) which investors can expect to hold the Manager accountable. Patience and consistency are two terms Affluence believe are representative of what an investor can expect from them, as the manager of their money.

Affluence believes in giving back to the community, and details how they accomplish this [here](#). FundSource views corporate citizenship and governance frameworks as extremely important.

While Affluence has embedded Environment, Social, and Governance (ESG) into its process, the Manager does not provide any specific guidance around governance on its website.

Affluence offer two funds, of which one fund is available to retail investors. The Affluence fund suite includes:

- [Affluence Investment Fund](#)
- Affluence LIC Fund

These funds are managed by the Affluence investment team, which consists of two investment professionals. For the number and type of funds being managed, the team is satisfactorily resourced. The Manager provides the biographies of the investment team [here](#).

## Using this Fund

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

The Affluence Investment Fund ("the Fund") is a multi-asset portfolio that is best suited to medium to long-term investors who can accept some investment risk over the longer term. The Fund can have exposure to both equities and income assets. The Fund can invest in other Manager funds that may not be available to retail investors.

The Fund is subject to market risk from several sectors, including equities and bonds, both Australian and global. Accordingly, the Fund may experience both positive and negative movements in valuation, as the prices of the underlying securities in the portfolio vary. The Fund is expected to typically be biased to equities, however, the Manager allocates dynamically, and can change the asset mix quickly, within a month, if required.

The Manager executes the Fund's strategy using a multi manager approach, leveraging the skills of external fund managers, rather than conducting research on individual securities. Importantly, the Manager can invest in individual securities, but is unlikely to have any meaningful exposure to New Zealand equities, bonds or property.

The Fund is an Australian Unit Trust (AUT) and aims to pay a regular monthly income distribution. The Manager does not hedge the Fund to New Zealand Dollars. Therefore, investors should determine if unhedged Australian Dollar income meets their needs and objectives.

Question	What the Manager says	What FundSource think						
<p>What are the Manager's assets under management - in total for Affluence and in this Fund?</p>	<p>As at March 2018, total assets under management for Affluence were AUD \$16 million, split as follows:</p> <p><i>As at 1 March 2018:</i></p> <table border="0"> <tr> <td>Affluence Investment Fund</td> <td>\$11m</td> </tr> <tr> <td>Affluence LIC Fund:</td> <td>\$ 5m</td> </tr> <tr> <td><b>Total:</b></td> <td><b>\$16m</b></td> </tr> </table>	Affluence Investment Fund	\$11m	Affluence LIC Fund:	\$ 5m	<b>Total:</b>	<b>\$16m</b>	<p>Affluence Funds Management is a newer fund manager, with a history that goes back to November 2014. However, the Manager became fully operational and responsible, post finalising the transition to a fully separated fund manager in August 2015.</p> <p>Since 2015 the Manager has launched two funds, and this Fund is the only fund available to retail investors, in Australia and New Zealand.</p> <p>The Fund was incepted on 28 November 2014, with Affluence Funds Management taking full responsibility in August 2015, post Cromwell Property Group retiring as the Trustee.</p> <p>Based on the level of funds under management (FUM), the operation is not profitable. FundSource believes that further capital support is required. It is expected this will be by the founder, Daryl Wilson.</p>
Affluence Investment Fund	\$11m							
Affluence LIC Fund:	\$ 5m							
<b>Total:</b>	<b>\$16m</b>							
<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>Affluence is the responsible entity and investment manager of the Fund. Affluence holds an Australian Financial Services Licence.</p> <p>The investment team comprises Daryl Wilson and Greg Lander, who are co-portfolio managers of both the Affluence Investment Fund and Affluence LIC Fund.</p> <p>Daryl and Greg have jointly managed the Affluence Investment Fund together for over two years. Daryl and Greg also worked together for over 10 years prior to that at Cromwell, an ASX listed property and fund manager.</p>	<p>Wilson and Lander are the joint Portfolio Managers, and the only full-time employees of the Manager. Wilson and Lander carry ultimate responsibility for the Fund. FundSource notes both Wilson and Lander have extensive backgrounds in asset and funds management. Both Wilson and Lander have worked together prior to Affluence for over 10 years, and at Affluence for close to 3 years. FundSource believes the extensive previous work history mitigates some of the risk when investing in a newer fund manager.</p> <p>Key person risk is very present, and the loss of either team member would be considered a significant loss, adversely impacting the funds rating.</p> <p>Due to the size of the Affluence team, both Wilson and Lander have operational as well as investment responsibilities. This includes trade execution. FundSource prefers to see operational functions separated from investment personnel, however, understands the Manager's relatively short history and level of FUM requires a balance to be struck. The Manager's beliefs on long term investing will see a lower portfolio turnover, reducing Wilson and Lander's investment workload.</p> <p>The investment team is responsible for idea generation, management and monitoring of the Fund. All funds are subject to oversight by a part time compliance specialist. The Manager is in the process of implementing a formal investment committee to oversee investment strategy, asset allocation and risk management. Trades are approved by compliance or one of the investment team prior to executing them.</p>						

<p>What objective is the Manager trying to achieve?</p>	<p>Affluence target total returns (distributions plus increase in unit price) of at least 5% above inflation over rolling three year periods. Affluence also recognise ongoing income is important to many investors. So, the Fund aims to pay monthly distributions, and to deliver a distribution yield of at least 5% per annum. In this way, Affluence seek to provide a regular income stream, while also growing the capital value of your investment over time.</p> <p>The Fund also aims to deliver these returns with volatility of less than half that of the ASX200 Index, measured over rolling three year periods. Affluence seek to achieve this through diversification, combining investments across multiple asset classes and investing with many different managers using various investment strategies. Affluence prefer managers Affluence believe can outperform in down-markets.</p>	<p>The Manager uses two benchmarks to track its performance. An absolute return based benchmark, being Australian inflation +5%. This is principally used for performance comparisons. In addition, the Fund has a market-based benchmark, the S&amp;P ASX200. This benchmark is used in managing the Fund's volatility. In both cases the Manager looks at the three year rolling periods. FundSource notes the use of multiple benchmarks is not common, however, may provide stronger guidance on what investors can expect to hold the Manager to.</p> <p>FundSource notes the Fund has broad ranges from which diversification can be achieved, across asset classes, external fund managers, and instruments. The Fund's historical allocation has been dominated by equities and cash, since the Manager assumed responsibility in August 2015. With this in mind, the Fund will be biased to growth assets, however, the active cash management should keep volatility below that of the S&amp;P ASX200.</p> <p>While the Manager seeks to provide a regular monthly income stream, investors should note the Manager is not obligated to make a regular monthly distribution to investors.</p>
<p>What does the Manager invest your money into?</p>	<p>The Fund aims to deliver above average results, but in a very different way to a traditional investment fund. Affluence seek to invest with 20 to 35 of what Affluence believe to be the best Australian investment managers across all asset classes. Affluence invest predominantly through unlisted managed funds. Affluence aim to invest in a way which Affluence believe balances maximum returns with low volatility.</p>	<p>The Fund is suitable for investors looking for an actively managed, multi manager portfolio, that is benchmark unaware. A unique feature of the Fund is an investment in to a portfolio of Australian Listed Investment Companies (LIC). FundSource notes the LIC fund currently represents around 15% of Fund assets and is managed by Affluence.</p> <p>The Manager's external manager selection process will see periodic changes in the underlying managers and funds. FundSource expects underlying manager turnover to be low, with underlying manager decisions being based around the medium to long term (three to five years or more).</p> <p>FundSource believes the use of 20-35 underlying managed funds is higher than typically used in constructing multi-manager funds. With a large number of underlying funds, the ability to look through underlying portfolios is considered important. The Manager can look through the LIC portfolio, as LIC's are exchange listed vehicles, and have continuous disclosure requirements. However, the Manager is not able to look through all underlying managed fund portfolios. Importantly, concentrated and micro or small cap fund portfolios are reviewed.</p> <p>FundSource believes the Manager will move to mandate structures as funds under management grow, providing greater transparency, and ability to review stock and sector commonality to this Fund.</p>

		<p>The Manager can use derivatives to assist in hedging market risks. At the time of writing the Manager uses only exchange traded options and does not have any derivative counterparties.</p>
<p>What are the inherent risks imbedded in the Fund?</p>	<p>Key risks are:</p> <ul style="list-style-type: none"> <li>• Economic and market risk – The performance of the Fund will be impacted by changing economic and market conditions. Affluence seek to minimise these risks through appropriate diversification and volatility reduction strategies.</li> <li>• Manager and key person risk – Affluence rely on a small investment team. Both Daryl and Greg have a significant personal investment in both Affluence and the funds Affluence manages.</li> <li>• Liquidity risk – A reduction in liquidity may impact the ability to satisfy withdrawal requests, particularly in periods of market volatility or when a large volume of withdrawals is requested. Affluence have a number of processes in place to manage this risk.</li> <li>• Currency risk – The Fund is denominated and predominantly invests in Australia but will usually hold some investments that have exposure to other currencies. The values of these investments may be impacted by currency fluctuations.</li> </ul>	<p>The Manager believes that a key driver of performance is the focused approach to underlying manager selection and asset allocation. The Manager develops views around a range of factors to assist in mitigating the risks identified, which are detailed on the <a href="#">Affluence website</a>.</p> <p>The Manager believes that active investment management provides a stronger opportunity to outperform over the long term, this is accentuated beyond the ASX50 companies. Manager selection is a methodical process to identify benchmark unaware and differentiated investment strategies. This is conducted as a part of a continuous review cycle.</p> <p>The Manager does not currently use an investment committee for oversight. FundSource notes the Manager is in the process of establishing an investment committee and implementing the use of the investment committee in to it processes, policies and procedures. Once established and operational FundSource will review how this new function has been implemented and how the investment committee processes relate to investment decisions. With the team consisting of two, this escalates the key person risk, despite the Fund predominantly investing in other fund managers.</p> <p>FundSource highlights the Fund can invest in single securities, across asset classes that is equities, property and bonds. This is likely to be limited in nature, but outside property, has not been a historical focus for the investment team. Accordingly, FundSource will continue to review the investment in single securities within the portfolio.</p> <p>The Fund does not hedge currency between the Australian and New Zealand dollar. Accordingly, investors must be prepared to accept currency risk when investing in this Fund. Further to this, the Manager does not hedge underlying currency exposures to the Australian dollar. FundSource notes the Fund predominantly invests in Australian Unit Trusts.</p>
<p>Why do they believe the future prices of the Fund's investments will vary?</p>	<p>The Fund aims to invest with the best investment managers available in Australia across all asset classes and strategies. Affluence actively seek out managers who have consistently outperformed a fair market benchmark on a risk adjusted basis. By investing with 20-35 of these managers, and achieving genuine diversification through different asset classes, investment styles and strategies</p>	<p>With asset allocation and manager selection being key drivers of performance, decisions around these two factors will influence the outcomes and investor experience. The Manager has developed a short track record indicating it is able to consistently implement its process and meet of objective the Fund. This includes selecting underlying managers, who when combined deliver consistent returns with</p>

	<p>Affluence seek to maximise performance while reducing volatility over a full market cycle.</p> <p>Because of the way in which the Fund invests it is likely to underperform when investment markets are rising strongly, deliver positive returns in most months when investment markets rise and significantly outperform when investment markets fall.</p>	<p>significantly reduced volatility compared to S&amp;P ASX200 Index reference point for volatility. This Fund has performed strongly and maintained below peer average volatility when compared to peers in the FE Analytics AMI Mixed Asset Balanced sector peers, which consists of 138 funds in total.</p> <p>Investors should consider the Fund as having a minimum investment horizon of at least five years, due to the higher level of exposure to equities. Over shorter periods there is potential for material change in the Funds value, based on market movements.</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 Fund's investment philosophy is designed around our core investment values:</p> <ul style="list-style-type: none"> <li>• To achieve better than average results, you must invest differently.</li> <li>• Value investing can deliver excellent long-term returns.</li> <li>• Investing in markets where there is less competition makes it easier to achieve above average results.</li> <li>• Being aware of long-term cycles and seeking to time investments can significantly improve performance.</li> <li>• A focus on lowering volatility of returns through diversification provides comfort for investors.</li> <li>• Long-term success requires a long-term focus, which in turn requires patience and discipline.</li> </ul> <p>Affluence seek to add value in the following ways, which Affluence believe make it easier to achieve above-average results:</p> <ul style="list-style-type: none"> <li>• Affluence invest with boutique managers that can produce superior risk-adjusted returns. Through these managers Affluence can access markets and strategies where there is less competition and investment styles that have a strategic or structural advantage.</li> <li>• Affluence focus on appropriate asset allocation to tilt the portfolio towards markets, assets and strategies Affluence believe offer the most value at any given time.</li> <li>• Our approach to diversification lowers volatility and limits drawdowns.</li> </ul>	<p>The Manager's overall approach is different to traditional diversified funds, both by asset allocation and underlying fund manager. This Fund employs a dynamic approach to asset allocation and has the ability to make significant changes to the asset allocation quickly. FundSource highlights that the Manager has refrained from significant changes, post the first 12-month period, where new capital was being raised, and investments being made in response to the new capital.</p> <p>The Fund has an extensive number of underlying investment managers and funds. There is potential for some stock commonality to creep in to the Fund, by way of holdings held by each underlying fund. The Manager does not currently invest via a mandate and does not have full transparency on the underlying portfolio. FundSource would prefer to see greater oversight down to the underlying security level.</p> <p>While the Fund has aspects, like the above, to iron out fully, this does not detract from the Managers ability to execute and deliver on the Fund's objectives. To date the Manager has been able to provide investors with strong performance, at reduced volatility. This has been achieved on a benchmark relative basis, and also compared to the 137 FE Analytics AMI Multi Asset Balanced sector peer funds.</p> <p>As the Fund's track record develops, the Managers ability to continue to execute investment decisions, both buy and sell, will gather greater evidence of how the Manager decisions influence performance outcomes, and react to changes in the market cycle. The Fund's performance is available on the <a href="#">Affluence Funds website</a>. Further information is available at <a href="#">Disclose</a> and <a href="#">FundSource</a> websites.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>Affluence seek to achieve the Fund's investment objective by choosing attractively priced investments overseen by quality managers. Affluence use a number of processes to identify potential investments. Affluence use many information sources to assist this process.</p>	<p>The Manager has a logical process that can be consistently applied, in forming its views, and through the decision-making process, which includes buying and selling investments. FundSource notes that due to the Managers relatively short history, at over three years, the decisions have been</p>

	<p>If an investment is assessed as not being able to deliver the return targets of the Fund, it is not considered for inclusion, regardless of other qualities.</p> <p>An investment assessed as having potential for inclusion in the Fund portfolio must pass through a number of hurdles. These include an analysis of historical performance, due diligence, a review of key service providers and qualitative assessment of the investment manager and their investment style. In assessing suitable investments, Affluence will place emphasis on various factors around performance, the environment the manager operates in and the fund manager's personality and investment style. If the outcome of these processes is positive, the investment is considered acceptable for inclusion within the investment portfolio.</p> <p>Managers and investments chosen for the portfolio need not meet all the target criteria, and some criteria carry higher weightings than others. When making an assessment, Affluence gives greater weight to qualitative factors than quantitative factors. This invariably means there is a degree of subjective judgment involved.</p>	<p>biased to buying rather than selling. FundSource views the sell rationale and discipline reflects how the Manager thinks, incumbency (better the manager or fund you know than the one you don't) of an underlying manager or fund can impede the decision-making process. Despite the longer-term investment focus of the Manager, FundSource will review the Manager's buy and sell disciplines as the Fund's history grows.</p> <p>The implementation of investment ideas and the buy and sell decisions meet a series of guidelines, most of which are soft in nature rather than rigid requirements. Decisions relating to buying and selling are ultimately the responsibility of Wilson and Lander jointly. This includes asset allocation and underlying managers and funds. FundSource believes the Manager would benefit from introducing an investment committee (which Affluence advise is in progress), to assist in ratifying or overseeing manager, fund and asset allocation decisions.</p> <p>The Fund accesses its underlying managers and funds via wholesale and retail funds. As funds under management grows the Manager will look to implement via mandates. Investing via mandates provides significant transparency, and the ability to better manage underlying fund transfers.</p>
<p>Has the CIO/ PM personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>Both Portfolio Managers, Daryl and Greg, have significant personal investments in the Fund. In addition, their extended families are also investors in the Fund.</p> <p>For a period of time after the Fund first opened, all investors were offered no fees on their investment for life. Both Daryl, Greg and their extended families were part of this arrangement. In addition, approximately 20 other investors who were early supporters also qualified as fee free for the life of their investment. The Manager made this offer to establish the Fund and broaden its investments.</p>	<p>FundSource believes that managers 'eating their own pudding' should be an aspect a potential investor considers when deciding to invest in any financial product.</p> <p>Investing in a fund, alongside investors, aligns the interests of investment personnel with those of the investors. When investment personnel are significantly invested in a fund they are managing, and at the same fees, FundSource view this as a strong alignment.</p> <p>The use of reduced fees to attract initial investors is common for boutique fund managers. While this leads to a different outcome, compared to investors who did not take advantage of the initial discounted offer, FundSource notes the investment team are heavily aligned with investor outcomes, due to the high level of personal FUM invested, and via the equity ownership the investment team have in the business.</p>
<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>Minimum and maximum asset allocation ranges for the Fund are deliberately very wide, to provide Affluence with significant discretion to do what Affluence believe is right in all market environments. The following is a narrower "Normal Range" for the Fund. Affluence would expect to operate within the normal ranges, except in the case of extreme market conditions.</p>	<p>Broad ranges are not unusual for domestic PIE funds available in the New Zealand market. By comparison to other dynamic asset allocation diversified funds, this Fund sits in the middle of ranges available to other managers. While the Manager has broad discretion, FundSource does not expect significant month on month changes. FundSource expects asset allocation changes to be methodical and</p>

	<p>Affluence report against these ranges monthly.</p> <table border="0"> <tr> <td>Cash:</td> <td>5% - 20%</td> </tr> <tr> <td>Affluence LIC Fund:</td> <td>10% - 25%</td> </tr> <tr> <td>International Fixed Interest:</td> <td>5% - 45%</td> </tr> <tr> <td>Australian Equity:</td> <td>20% - 50%</td> </tr> <tr> <td>Global Equity:</td> <td>5% - 15%</td> </tr> <tr> <td>Property:</td> <td>5% - 15%</td> </tr> <tr> <td>Resources/Commodities:</td> <td>0% - 10%</td> </tr> <tr> <td>Market Neutral/Alternatives:</td> <td>5% - 20%</td> </tr> <tr> <td>Debt/Fixed Interest:</td> <td>5% - 20%</td> </tr> <tr> <td>Other:</td> <td>0% - 35%</td> </tr> </table>	Cash:	5% - 20%	Affluence LIC Fund:	10% - 25%	International Fixed Interest:	5% - 45%	Australian Equity:	20% - 50%	Global Equity:	5% - 15%	Property:	5% - 15%	Resources/Commodities:	0% - 10%	Market Neutral/Alternatives:	5% - 20%	Debt/Fixed Interest:	5% - 20%	Other:	0% - 35%	<p>measured over time. This is in line with the Fund's objective to generate a consistent positive return and manage volatility over the over the medium to long term.</p> <p>FundSource notes there are a large number of Australian Equity funds/ investments, at 15 funds. Combined with the Australian equity exposure with in the Affluence LIC Fund (ALF) ~60%, property securities, and resources and commodities allocation. Accordingly, investors should expect the overall exposure to Australia to be high, particularly if the asset classes and the exposure to the ALF are at the upper extremes of their respective ranges.</p>
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<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>Affluence believe in a fair fee structure which encourages good long-term performance and punishes poor performance. For this reason, Affluence does not charge any fixed management fee for the Fund. Instead, Affluence charge a performance fee equal to 12.5% of positive performance, with any previous under performance required to be recovered first.</p> <p>This provides significant alignment between Affluence and investors. It ensures Affluence is focused on trying to avoid negative return periods, as this results in no fee being paid to Affluence.</p> <p>Affluence has also capped the administration costs of the Fund at 0.25% per annum and pays all costs above this limit.</p>	<p>This Fund does not charge a fixed management fee. The Manager is remunerated by way of a reasonable 12.5% performance fee, subject to high water marks and underperformance recovery obligations being met. FundSource believes this fee structure to be very rare, globally. While this incentivises the Manager to perform, it is incumbent on the Manager to ensure excessive risk is not being used to enhance performance. FundSource has not seen evidence this is the case to date and believes the Fund's risk statistics are a critical component on reviewing this Fund.</p> <p>FundSource notes the Fund is one of small number of FE Analytics sector funds, less than five of 137 funds that charge a performance fee. The key difference here being the Fund does not charge additional fees, other than the capped administration fee.</p> <p>FundSource notes this could see the Manager earn no fees for potentially significant periods. Due to the Manager being relatively new, the Managers ability to sustain itself during no performance fee periods is critical to an investor's decision making process. The Manager must remain operational for the Fund to continue.</p> <p>FundSource believes the Manager has adequate capital resources to continue to fund the operation for several years, mitigating corporate risk to a small degree.</p>																				
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>Affluence believe their organisational and governance processes are very high quality. The Board of Affluence has overall responsibility for governance, compliance and risk management. The Board consists of two non-executive Directors, Karen Prentis and Geoff Cannings, plus Daryl Wilson. Karen and Geoff have significant experience as professional Directors, including at various other funds management firms.</p> <p>The Board sets and monitors progress against business strategic objectives including investment, marketing,</p>	<p>The Manager's governance practices are in line, if not stronger than fund managers of a similar size, with a relatively short history. The number of non-executive directors is viewed positively. The Board level oversight across the operation is strong. This combined with the experience Wilson has as a director of an ASX listed company with a market capitalisation of ~\$2 billion instils confidence the Manager can meet its corporate obligations.</p> <p>FundSource believes as the funds under management grows the Board has an opportunity to sub delegate some of its</p>																				

	<p>risk/compliance and financial targets. The Board also oversees a comprehensive compliance and risk management program. Affluence has a strong risk management culture. A compliance officer assists in reviewing compliance on an ongoing basis and reporting to the Board on compliance matters.</p> <p>Key service providers are Perpetual (custodian) and Boardroom (registry). Affluence and the Fund are both subject to annual financial and compliance audits conducted by Pitcher Partners.</p>	<p>responsibilities to sub committees, such as audit, risk, compliance, and investment committees. Further to this, FundSource prefers the sub committees are driven by non-executive personnel. Compliance functions reporting to the Board, at present, is in line with industry best practice, maintaining regulatory and investment requirements. FundSource notes that to date the Manager has no reported compliance breaches.</p> <p>FundSource notes that all external service providers are large, well-resourced and reputable firms. Regular annual reviews are conducted by the Manager, which is considered to be the expected time frame for external provider reviews.</p>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>There is a very strong alignment of interests between investors and the Manager:</p> <ul style="list-style-type: none"> <li>• Affluence is majority owned by entities associated with Daryl and Greg.</li> <li>• There are no fixed management fees, and performance fees are paid for positive performance only.</li> <li>• Both Daryl and Greg have significant personal investments in the Fund.</li> </ul>	<p>FundSource observes that to preserve capital and generate a long-term positive return for investors the Manager must remain operational. The ownership and total FUM of Affluence Funds Management introduces corporate and key person risk. Additionally, the alignment between investors, the investment, and executive teams is strong.</p> <p>The remuneration structures are in line with boutique funds management operations, where equity ownership, rather than salaries incentivise the investment team. Notably, current non-executive directors have a small equity ownership in the Manager, in lieu of director's remuneration.</p> <p>The use of performance fees only, other than the capped administration fee, further aligns the investment team, to an investor's experience. However, through prolonged periods of low or no performance fees being generated, exacerbates corporate risk.</p>

## Conclusion and Rating

This Fund provides an investor with exposure to a diversified fund that is likely to be biased to Australian equities, via managed funds from external fund managers, as well as internal fund structures. The Fund can have exposure to income assets. FundSource notes some underlying external funds may not be available to retail investors. The Manager considers top down macro influences in its asset allocation, however, does not construct a traditional strategic asset allocation framework. The asset allocation is dynamic asset allocation (DAA) in nature, which could see significant variance, on a month to month basis. FundSource notes that underlying fund turnover and DAA movements have been modest over the last three years. To date the Fund has made methodical and measured responses to market change.

The Manager has a relatively short track record, at three years, as FUM grows the Manager expects to add staff. The investment team currently wear multiple hats, flowing in to operational and administration functions, which have been outsourced where practicable. Compliance is handled separately to the investment team, until it reports to the Board. FundSource is pleased the Manager is implementing an investment committee and looks forward to reviewing this when it becomes operational. This doesn't negate a

relatively high degree of corporate risk, or key person risk. However, these risks haven't hampered the Fund's ability to achieve its stated objective.

The investment team, while small, exhibits solid industry experience, but it is not directly attributable to operating a similar type fund. The experience relates to direct property assets, whose characteristics are different to those of listed companies and fixed income instruments. The investment team has been in place since inception and are heavily aligned to the investor experience.

The Manager's basic fee is the lowest, that is no basic fee, compared to or peer average of the FE Analytics Australian Managed Investment (AMI) Multi Asset Balanced sector. While a performance fee is charged it is at the midpoint of performance fees charged. By not charging a manager basic fee, FundSource believes the fee structure is strongly aligned to an investor experience.

FundSource recommends that investors carefully consider that the Manager's dynamic asset allocation and mix of underlying managers and direct investments matches with their risk profile and meets their investment needs and objectives. This is not a traditional balanced fund strategy.

### FundSource Rating: **AA**

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

## Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score
Corporate & Investment Governance	15%	3.75 / 5
Investment Philosophy & Process	20%	3.80 / 5
People	25%	2.67 / 5
Portfolio Construction & Implementation	15%	3.17 / 5
Risk Management	15%	3.20 / 5
Investment Fees	10%	3.86 / 5

Overall Average Score: **3.33 / 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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