



Qualitative Fund Research

Milford KiwiSaver Balanced Fund

June 2018



KiwiSaver Manager of the Year

About the Manager

Milford Asset Management Limited (Milford, the Manager) commenced in 2003, and has grown to be a significant fund manager. Milford is one of the few New Zealand headquartered fund managers to have an investment team based in Australia. The Manager provides a profile [here](#).

Milford outlines its [values and principles](#) providing potential and current investors with the Manager's aim to be a world class investment partner of choice. Milford is one of a small number of New Zealand Fund Managers who provide a diversified range of services to New Zealand investors, offering three core functions to the market, being a [KiwiSaver Plan, Investment Funds, and Wealth Management](#) services. This is supported by a suite of [tools and guides](#), developed to assist investors better understand investing. Milford's [New to Investing](#) provides a basic overview of concepts often discussed through the financial advice process.

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 Milford KiwiSaver Balanced Fund (the 'Fund') is a multi-asset portfolio that is best suited to long term investors who can accept some investment risk over the medium term. The Fund has exposure to both growth assets with a reduced exposure to income assets. The Fund primarily invests in underlying Milford funds, and can invest via direct securities.

The Fund is subject to market risk from several sectors, including bonds and equities, both

domestic 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. Investors should therefore be aware that there is a risk of potential capital loss being incurred on their investment.

Understanding clients is at the heart of any business and is critical to the longevity of an investment manager. Milford has articulated what is important to the Manager via its [values and principles](#) statement.

- Milford manages three KiwiSaver funds:
- Milford KiwiSaver Conservative Fund
 - [Milford Kiwisaver Balanced Fund](#)
 - Milford KiwiSaver Active Growth Fund

The funds above are managed by a team of 17 New Zealand, and six Australian based investment professionals. Nine of the investment team carry portfolio management responsibilities. Individual bios on the team at Milford can be found [here](#).

This report focuses on the Fund which has a benchmark 40% income asset and 60% growth asset mix. The Manager executes their strategy using the internal investment skills via internal wholesale funds, but can invest via direct securities, where the Fund deems it appropriate.

The Fund is a Portfolio Investment Entity (PIE) which will not pay distributions.

Question	What the Manager says									
<p>What are the Manager's assets under management - in total and in this Fund?</p>	<p>Milford manages money for a variety of clients including KiwiSaver members, individuals, family trusts, charities, community trusts, Iwi and superannuation schemes.</p> <p>The Manager has three KiwiSaver funds:</p> <p><i>As at March 2018:</i></p> <table border="0"> <tr> <td>Conservative Fund:</td> <td style="text-align: right;">\$ 51.02M</td> </tr> <tr> <td>Balanced Fund:</td> <td style="text-align: right;">\$ 198.92M</td> </tr> <tr> <td>Active Growth:</td> <td style="text-align: right;">\$ 880.79M</td> </tr> <tr> <td>Manager Total FUM:</td> <td style="text-align: right;">\$5, 523.7M</td> </tr> </table>	Conservative Fund:	\$ 51.02M	Balanced Fund:	\$ 198.92M	Active Growth:	\$ 880.79M	Manager Total FUM:	\$5, 523.7M	<p>The business as a whole has grown to be a significant non-institutionally owned New Zealand fund manager, with its full fund suite having considerable FUM, and a strong retail investor focus.</p> <p>The Fund commenced on 1 April 2010, and has attracted strong investment flows, raising over \$198.92 million.</p> <p>FundSource notes that several diversified funds inter-fund in to several of the Manager's sector specific funds, and/ or other diversified funds.</p>
Conservative Fund:	\$ 51.02M									
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Active Growth:	\$ 880.79M									
Manager Total FUM:	\$5, 523.7M									
<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>Mark Riggall is the lead Portfolio Manager with Paul Morris as the Co-Manager.</p> <p>Mark is the Portfolio Manager for the Fund, and is Co-Portfolio Manager KiwiSaver and Unit Trust Conservative Fund (responsible for its asset allocation) in addition to responsibility for managing the Central Dealing Desk. Prior to joining Milford in November 2014, Mark spent 11 years with Morgan Stanley in London and Hong Kong as an equity derivatives trader. In Hong Kong he had responsibility for the Asia ex-Japan index derivatives business, running multiple regional derivative portfolios. Prior to that in London he ran a global equity derivatives portfolio in addition to a UK equity derivatives portfolio.</p> <p>Paul joined Milford in February 2016. He is the Co-Portfolio Manager of the Milford Balanced Funds (Unit Trust & KiwiSaver). Paul is the Portfolio Manager for the Milford Trans-Tasman Bond Fund, the Milford Global Bond Fund and the Milford Conservative Funds (Unit Trust & KiwiSaver). Paul has over 20 years' experience in financial markets overseas and locally. Paul has held senior fixed income roles with investment banks including Merrill Lynch and ABN AMRO. His experience includes debt capital markets, credit trading and interest rate derivatives trading. Paul was Executive Director and Head of Debt Capital Markets at JBWere, before moving to Macquarie Private Wealth where he was Head of Portfolio Strategy and Fixed Income. This position included responsibility for asset allocation of the private wealth team portfolios.</p> <p>Mark and Paul took over responsibility for the Fund on 1 April 2017 from Jonathan Windust who had managed the Fund since its inception on 1 April 2010. The Portfolio Managers are supported by a wide team of analysts with an investment team of over 20 people.</p>	<p>FundSource notes that the Manager has invested in developing the investment team, since inception, to now have one of the largest investment teams, managing a larger suite of funds than most New Zealand managers. FundSource highlights there is some crossover between funds available as retail PIE's and KiwiSaver funds, reducing some drag on resources.</p> <p>Riggall assumed the role as the Fund's Portfolio Manager (PM) in April 2017. Riggall has come from trading background, with this being his first role as a Portfolio Manager. FundSource notes Riggall has a strong derivatives background, which can be used in the Fund, but are not expected to be a significant part of the portfolio. Morris fulfils the role of Co-PM, supporting Riggall. FundSource believes Morris' experience is relevant to the fixed interest sector. Further to this, Riggall is able to draw on the broader investment team as required. FundSource highlights that all but the Milford Trans-Tasman Fund have dedicated Co-PM's. The Trans-Tasman Fund has a two PM structure, which is considered a minor difference.</p> <p>In April 2017 the Manager conducted a broad investment team review, which saw Brian Gaynor retain the role as Head of Investments, while relinquishing his PM responsibilities. This was followed by appointing Wayne Gentle as Milford's Chief Investment Officer, while retaining his role as Head of Australian Investments, and portfolio management responsibilities. The review in April 2017 resulted in a number of PM changes for each fund, including this Fund. Change can be a catalyst for the conviction in a Fund to diminish. FundSource observes that Milford has not lost key investment personnel, so this risk has been reduced. FundSource highlights that the investment team operates a collegiate approach, where all team members are expected to express views and opinions, regardless of that person being directly responsible for a specific fund.</p> <p>FundSource notes the Manager has added an additional analyst to the investment team. They have also reconfigured a current non-Investment team position to</p>								

		work with the investment team to provide and manage the use of qualitative and quantitative data across the investment team, freeing up analyst and PM's from data intensive work and providing better insights from the data.
What objective is the Manager trying to achieve?	<p>The Fund's objective is to provide capital growth after the base fund fee but before tax and before the performance fee, over the minimum recommended investment timeframe of five years.</p> <p>It is a diversified fund that primarily invests in equities, with a significant allocation to fixed interest securities.</p>	<p>The Fund aims to provide some capital growth, without taking on excessive risk to do so. FundSource expects the Fund's returns to be predominantly due to the equity exposure, with modest income from fixed interest investments. Equity exposure will be biased to Australasian equities. Growth assets can introduce some volatility, and negatively impact an investors capital.</p> <p>The Fund's ability to meet or exceed its objective is detailed in the Fund's monthly fund updates. Additional performance information can be found on the FundSource website and Disclose website.</p>
What does the Manager invest your money into?	<p>It is a diversified fund that primarily invests in equities, with a moderate allocation to fixed interest securities.</p> <p>Over the long term the Fund is expected to have the following asset allocation:</p> <p>International Fixed Interest 23% NZ Fixed Interest 8% International Equities 24% Australasian Equities 31% Cash and Cash Equivalents 8% Listed Property 6%</p> <p>Milford has a Responsible Investment Policy which ensures the exclusion of certain stocks and integrates environmental, social, and governance (ESG) analysis into its investment decision making process.</p> <p>As part of our commitment to responsible investing, Milford is a signatory to the United Nations Principles for Responsible Investment and a member of the Responsible Investment Association Australasia.</p>	<p>The Manager considers most of its funds to have an absolute return focus, that is the Milford funds are focused on generating a positive return, regardless of the market environment.</p> <p>FundSource notes that while the Fund has a target asset allocation, investors should note that several asset classes have very broad ranges, accordingly the Fund is not expected to remain invested in line with its target asset allocation.</p> <p>The Fund will invest using the internal investment skills via internal wholesale funds, but can invest via direct securities, where the Fund deems it appropriate, making this fund a diversified, multi asset, single manager fund. This Fund has provided investors with a solid repeatable historical performance.</p> <p>FundSource notes that historical performance is not indicative of future performance, however, it does provide insight as to how the Fund and the Manager have navigated markets over time, and the Manager's ability to understand the environment and take decisive action. Milford has proven its ability to read and understand the market and take decisive action to implement decisions. This is a credit to the broader investment team, as there are many asset allocation and security selection decisions that need to come together to produce sustainable and consistent performance outcomes for investors.</p>
What are the inherent risks imbedded in the Fund?	<p>The Fund is subject to risks as outlined in the Product Disclosure Statement (available at milfordasset.com), however specifically for this type of fund the inherent risks are:</p> <ul style="list-style-type: none"> - Investment return risk - Market risk 	<p>The Manager is aware of a broad range of risk embedded in the Fund. The Manager has successfully raised significant funds, across most investment options. This can lead to the Manager having significant positions in domestic companies or debt issuance. As a result the Manager has to carefully navigate the New Zealand</p>

	<ul style="list-style-type: none"> - Interest rate risk - Credit risk - Liquidity risk - Currency risk - Entity risk - Counterparty risk - Country concentration risk - Derivative risk - Small and medium sized entities risk 	<p>market, to ensure it can efficiently enter and exit a security, across Milford's suite of Funds. This can exacerbate liquidity, counterparty, concentration, derivative risk, and the Manager's ability to invest in small to medium size entities, or fixed interest issuance. FundSource highlights the Fund manages some of the risks pointed out above by carrying a higher allocation to International Fixed Interest, predominantly Australian Fixed Interest or Australasian corporates issuing debt in foreign currencies.</p> <p>FundSource notes that the Fund has an absolute return focus, accordingly, investors can expect the actual portfolio asset allocation to materially deviate from the Fund's targeted asset allocation. FundSource notes the Fund has the ability to change its allocation quickly and meaningfully, as both the Fund and Manager think in an absolute return basis.</p>
<p>Why does the Manager believe the future prices of the Fund's investments will vary?</p>	<p>The Fund invests predominantly in traded securities and the price of these will vary over time reflecting varying investor demand for those securities and changing underlying performance of different companies and countries.</p> <p>In order to ensure we can benefit and protect from these movements, Milford has wide asset allocation ranges for its Funds in order to provide the greatest flexibility to invest where it sees the best opportunities for a given level of risk. This flexibility allows capital to be allocated when opportunities arise, but also to invest more defensively should there be the need.</p>	<p>FundSource views the Fund's flexibility to be a strength, in that flexibility affords the Manager to react quickly to changes in the market's economic fundamentals. The Fund has used its flexible guidelines to change its asset allocation over time, with quarter on quarter moves typically being <5%. While year on year the asset allocation changes have been >5%, notably in the fixed interest sector. However, FundSource highlights the Fund's flexibility has not been fully utilised to date.</p> <p>The asset allocation along with security selection are the largest contributors to performance. FundSource notes the Manager's Statement of Investment Policy and Objectives (SIPO), clearly outlines the process and guidelines on what the Manager can and cannot do, to assist in managing risk.</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>Milford has provided consistently strong risk-adjusted, after fee returns.</p> <p>Milford employees can only invest in Milford funds. This means that our interests are aligned with our clients'. As at 31 March 2018, Milford and Milford staff had over \$40M invested in our funds.</p> <p>Milford is majority staff owned and this means our staff are always looking to ensure the best long term outcome for our clients. It also ensures better continuity of the people managing our funds and servicing our clients.</p> <p>Milford is an active manager employing a large investment team looking to uncover investment opportunities using both a bottom-up and top-down approach. The investment team of over 20, led by Brian Gaynor, has combined financial services industry experience of over 300 years. The team includes six staff in our Sydney office allowing us better access to, and research</p>	<p>The Fund's return to investors, available on the Manager's, FundSource, and Disclose website, highlights the Fund's return compared to the benchmark, which is based on the Fund's Target Asset Allocation. This Fund has shown very consistent returns.</p> <p>The Manager outlines what they offer to investors, and the guiding principles that align Manager and investor interests. These statements provide some guidance as to the commitment Milford undertakes to investors.</p> <p>In conjunction with a clear process outlined in the Milford Unit Trust SIPO, the Manager presents its case as to why a potential investor should consider investing in this Fund.</p> <p>FundSource notes that the Manager's growth in personnel, including investment personnel, represents a strong commitment to New Zealand investors.</p>

	<p>of, Australian companies. This approach has delivered strong long-term returns and we believe it will continue to do so.</p> <p>In addition, we have the ability to protect capital by having sufficiently wide ranges to move to cash or other defensive assets when deemed appropriate.</p> <p>We believe this approach provides value for money, as shown by higher net returns, when compared to an index fund.</p> <p>Milford's performance and service has been independently recognised by being named the FundSource 2017 KiwiSaver Manager of the Year and by winning the 2018 Consumer NZ People's Choice Award for receiving the highest score for KiwiSaver customer satisfaction.</p>	<p>Coupled with the strong tenure of key investment personnel, consistency in the way money is managed is viewed positively, despite some re-shuffling of PM responsibilities in April 2017.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>Milford uses a combination of bottom-up fundamental and top-down macroeconomic investment approaches, executed across its investment team. An extensive company visitation process ensures our financial analysis is well supported by our understanding of a company's people and their plans for the business, amongst other factors.</p> <p>The combined knowledge of the full investment team is used in understanding the risks and opportunities of any given investment, but the ultimate decision is made by the Portfolio Manager.</p>	<p>FundSource believes the Manager's company visitation program to be high compared to most New Zealand Manager's. Based on the historical consistency of the Fund's performance, the knowledge garnered from frequent meetings appears to translate in to performance. FundSource notes historical performance is not an indicator of future performance but provides some insight in to how the Manager reacts to a changing environment.</p> <p>The Manager employs a structured approach to identifying new ideas and implementing them in to a portfolio. While the PM carries significant responsibility, no investment decisions are made in isolation. The investment team use a combination of structured and unstructured meetings, which ultimately lead to the Investment Forum which provides a key element of peer review for company research and strategic views. FundSource highlights PM's have discretion to choose securities and the allocation of those securities in their funds, in this case the KiwiSaver Balanced Fund.</p>
<p>Has the CIO/ Portfolio Manager personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>Yes, the Portfolio Manager invests in the fund. Milford staff can only invest in Milford funds. We believe this is an important distinction as it ensures that all, and not just a portion, of the funds invested by Milford staff are invested alongside our clients.</p> <p>As at 31 March 2018 Milford, and Milford staff, have over \$40M invested in Milford Funds.</p> <p>Due to the restriction noted above, the company believes it's fair to offer a slightly discounted fee to its employees. This comprises of a reduced base rate but with employees paying the same performance fee, if any, as clients. We believe the most important element of alignment is based on significant investment in our own funds as this is what truly focuses the manager to</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. Effectively the investment team are eating their own cooking, bringing strong investor alignment.</p> <p>FundSource views the Manager's restriction on Milford staff investing only in Milford funds positively, particularly investment staff. This should prevent the investment team from blurring lines between company and personal transactions but also ensuring that all of their personal investments are aligned with their clients. This is considered to be best practice for investment personnel particularly.</p> <p>The discount in fees offered to Milford staff has some impact on the alignment to</p>

	<p>derive the best possible performance while constantly being aware of downside risk.</p>	<p>investor outcomes, as Milford staff will have a slight performance advantage over time. Compounding is one of investing's most powerful tools, therefore any advantage gained can change the outcome. The difference in the outcome for an investor versus a Milford staff member will depend on the fee discount applied to staff and the duration of the investment. FundSource does not believe this materially discounts the nature of the investment team's exposure to Milford funds, or broadly the alignment to investors outcomes.</p> <p>FundSource notes performance fees are not discounted for Milford staff, positively contributing to investor alignment.</p>
<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>The Fund has wide investment parameters and does so for good reason, giving the Portfolio Manager the option to invest where they deem the best return for a given level of risk. Protecting capital in poor markets is just as important as capturing returns in strong markets.</p> <p>Specifically, the Fund is permitted to vary its asset allocation with the ranges noted below. You can find more detail on the Statement of Investment Policies and Objectives (SIPO) ranges on the Milford website: https://milfordasset.com/documents/</p> <p>Current SIPO Ranges:</p> <p>By Growth vs Income Assets: Growth Assets 25-75% Income Assets 25-75%</p> <p>By Asset Class: Cash and Cash Equivalents 0-100% International Fixed Interest 0-40% NZ Fixed 0-65% International Equities 0-50% Australasian Equities 0-40% Listed Property 0-20% Unlisted Property 0-7% Commodities 0-10% Other Investments -20-+20%</p>	<p>Portfolio Managers (PM) are empowered to develop the Fund's investment strategies endeavouring to seek those that best fit the Fund's objectives and risk tolerance.</p> <p>FundSource highlights there are some constraints and the PM's are required to remain within the guidelines of the Fund. The Manager constructs an Environment, Social, and Governance (ESG) exclusion list that PM's are restricted from buying. This Fund can invest in other funds that have the right to borrow, this is captured in the SIPO.</p> <p>All trades are processed through a centralised dealing desk, separating portfolio responsibilities from trade execution. This is important, as the dealing function can assist in reducing costs, such as reducing transaction costs.</p> <p>Notably the Fund's neutral position for currency is 15% exposure, for international securities. The Portfolio Manager can and does take active foreign exchange positions, limited to -10%-+50% of the Fund's value. The Manager believes that having some discretion over hedging foreign exchange positions can help reduce volatility in the fund and protect capital.</p>
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>Milford takes an active approach to investing, focusing on delivering a strong, risk adjusted, after-fee return.</p> <p>We believe that our base fee on this Fund is fair given the active investment approach and a strong history of attractive net returns.</p> <p>Our after-fee returns have consistently ranked strongly in industry surveys.</p> <p>Milford's fund management fee covers all Fund operating costs including investment management, supervisor, custodial, fund accounting, and audit & legal costs. Other funds in the industry may charge an investment management fee plus an additional capped expense recovery fee for</p>	<p>The Fund's basic fee is higher than the average fee charged by peer funds in the FE Analytics NZMI KiwiSaver Balanced sector, which consists of 37 funds. FundSource notes 23 funds in the FE Analytics sector are labelled Balanced in the fund's name. The fee dispersion is slightly compressed within the Balanced labelled funds; however, the Milford KiwiSaver Balanced Fund fees remain high compared to the subset of 23 Balanced labelled funds.</p> <p>The KiwiSaver Balanced Fund does not directly charge a performance fee, but it may invest in related Milford funds that have performance fees. FundSource notes that performance fees have been paid by the Fund. The Product Disclosure Statement (PDS) provides guidance on</p>

	<p>other separate costs that Milford absorbs in our management fee.</p>	<p>the magnitude of the performance fee payable by this Fund, as does the Disclose website.</p> <p>FundSource notes that Milford KiwiSaver Funds charge a \$36 annual administration fee.</p>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>Milford's quality of governance is very strong. We employ a range of personnel with strong domestic and international experience. Four of the five board members are non-executive. A number of board sub-committees, including a monthly Investment Management Committee and regular Board Investment Committee (chaired by Non-Executive Directors), focus on the governance of specific areas of the business.</p> <p>Milford has invested heavily in systems and processes to ensure we remain in line with New Zealand and international best practice when it comes to investment systems and governance. This includes the use of the Charles River Portfolio Management System and a Centralised Dealing team which is run by Mark Riggall and Brad Litt.</p>	<p>The Manager has several layers of oversight in place to assist with investment governance, starting with the Investment Forum and Investment Committee. These committees are not in place to develop a company view, PM's are able to incorporate their own view. These committees do allow open discussion among the investment team. While the Investment Forum provides some boundaries for the Fund, including a series of excluded securities, and asset allocation guidelines, as per the SIPO. FundSource highlights the Investment Committee is dominated by non-executive directors, which is considered market leading in New Zealand.</p> <p>All trades are executed through Milford's centralised dealing desk. FundSource observes a separated dealing desk is not typical for New Zealand Fund Managers and is viewed positively. Separation of duties is seen as a key component to strong governance. Up until April 2017 dealers held no portfolio responsibilities. In April 2017 Mark Riggall, Central Dealing Desk Manager, assumed PM responsibilities for the Milford Balanced Fund, in conjunction to his dealing responsibilities. FundSource would prefer to see central dealing functions remain fully separated from portfolio responsibilities. However, notes that Riggall's role as the Portfolio Manager, is an asset allocation role, where he is restricted to buying units in other Milford Funds.</p> <p>From a corporate governance perspective, the Manager has a strong structure which starts with the composition of the Board. With the exception of Gaynor this is comprised of non-executive directors. This extends to the Risk and Investment Committees.</p> <p>There are sufficient internal personnel in operational and support roles to ensure that the investment team members can concentrate on managing the portfolios. External service providers are well recognised in their respective fields. FundSource observes the Manager conducts a regular review of external service providers, based around a formal Outsourcing Policy.</p>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>Alignment is integral to Milford's philosophy. Employees can only invest in Milford Funds, and are encouraged to purchase shares in the business. For a large number of employees, including the entire investment team, remuneration is partly payable in shares of the company.</p>	<p>Milford is a privately majority Kiwi owned company, with a large proportion of the company held by Brian Gaynor. All investment team members who have been with the firm for over one year have equity in the company. Notably, shareholding is not limited to existing employees, with ex-</p>

		<p>employees retaining their shares. FundSource believes owning equity in company shows a strong buy-in from the team to work hard for the firm's long-term success.</p> <p>The requirement that all staff, particularly the investment team, must invest in Milford funds is viewed positively, despite a fee differential to investors.</p>
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Conclusion and Rating

The Fund provides investors with exposure to an asset allocation that is slightly biased to equities, but can dynamically move across asset classes. The Fund is actively managed across defensive and growth asset classes, via a mix of mostly soft ranges, asset class dependent. The core driver of performance coming from the domestic and international equity sectors. The Fund can utilise a broad range of instruments to assist in managing risk. FundSource believe investors considering this Fund should have a minimum investment timeframe of five years.

Milford is principally owned by employees and ex-employees of the Manager. This includes members of the investment team. The Manager has significant funds under management (FUM), which has enabled continued growth and development of the investment team, and a broader number of employees. The Manager continues to develop its product suite, introducing new funds in 2018. FundSource views this positively as it improves the Manager's long term sustainability. However, increasing the number of funds managed could stretch the existing investment team.

FundSource observes the investment team has strong industry experience. The interests of the investment team are strongly aligned to those of the investor, via equity and investment in the Fund. The discount to the fees paid by Milford staff is

intended to offset the Manager's restrictions on investing outside of Milford funds. FundSource is pleased to see Milford adding investment team resources, which should continue to increase, particularly as the number of funds offered increases.

The Manager's basic fee is higher than the peer average in the FE Analytics NZMI KiwiSaver Balanced sector, for funds labelled balanced. The fund doesn't charge a performance fee, but can and does invest in underlying Milford funds that do charge performance fee. This is confusing, as ultimately investors in the Fund will pay performance based fees. Where performance fees are being paid FundSource believes the manager basic fee should be below the average fee being charged. FundSource believes there is scope for the Manager to review the Fund's fee structure, but notes fees should not be reviewed in isolation. Fees can be justified by consistent outperformance on a risk adjusted basis. FundSource notes this Fund does not charge performance fees.

FundSource recommends that investors carefully consider the Managers defensive and growth asset mix, relatively flexible mandate, and dynamic approach to asset allocation, matches with their risk profile, investment needs, and objectives.

FundSource Rating: **AA**

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

Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score
Corporate & Investment Governance	15%	4.00 / 5
Investment Philosophy & Process	20%	4.40 / 5
People	25%	3.67 / 5
Portfolio Construction & Implementation	15%	3.33 / 5
Risk Management	15%	4.00 / 5
Investment Fees	10%	2.86 / 5

Overall Average Score: **3.78 / 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

Disclaimers, Disclosures and Warnings

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RESEARCH IP

FundSource's qualitative research is conducted by independent research company, Research IP Pty Ltd. Research IP was founded in 2015 as a special purpose financial services vehicle, licensing or contracting the services of specialist advisers and analysts. The rationale behind contracting, as opposed to employing staff, is to provide flexibility, and allow Research IP to leverage the skills of specialists on an as required basis, to best meet the brief and scope of the work required to be completed. Research IP is able to leverage executive, corporate, funds management, compliance, administration, operational, quantitative analytics, qualitative research, data collection, interpretation and analysis, and database technology specialists, to deliver client focused solutions.

By leveraging the skills of specialists, Research IP is able to provide innovative and tailored financial services solutions to the market place. Client focused outcomes are underpinned by the belief that the role of business model innovation and accelerating technological change opens up new possibilities, to put client interests at the centre of the financial services industry focus, based on John Hagel's work on the possibilities for "Disruption by Trusted Advisors" and John Kay's "Other People's Money: Masters of the Universe or Servants of the People".



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