



# Qualitative Fund Research

Milford Trans-Tasman Equity Fund

April 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.

Understanding clients is at the heart of any business and is critical to the longevity of an

## 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 Trans-Tasman Equity Fund (the 'Fund') is a portfolio that primarily consists of listed New Zealand and Australian companies. The asset allocation neutral position is a 50:50 mix of New Zealand and Australian equities. The Fund is best suited to longer term investors who can accept investment risk over five plus years. The Fund will predominantly invest directly in New Zealand and Australian equities but is not precluded from investing in to Milford's other funds.

The Fund is subject to equity volatility and market risk, both domestically and from Australia. Accordingly, the Fund may experience both positive and negative movements in valuation, as

investment manager. Milford has articulated what is important to the Manager via its [values and principles](#) statement.

Milford manages a range of funds including:

- Milford Conservative Fund
- Milford Diversified Income Fund
- Milford Balanced Fund
- Milford Active Growth Fund
- Milford Global Equity Fund
- [Milford Trans-Tasman Equity Fund](#)
- Milford Dynamic Fund
- Milford Global Bond Fund
- Milford Trans- Tasman Bond Fund
- Australian Absolute Growth Fund (also available as an Australian Unit Trust (AUT))

The funds above are managed by a team of 16 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](#).

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.

This report focuses on the Trans-Tasman Equity Fund, which has a neutral 95% allocation to growth assets, and 5% to income assets. The Manager executes their strategy using direct securities but leverages the skills of the broader business, where the Fund deems it appropriate.

The Fund is a Portfolio Investment Entity (PIE) and the Manager can pay bi-annual distributions, at their discretion. The amount paid to each investor is based on the number of cents per unit held. The Manager states that Distributions from the funds are non-taxable events and are not treated as income for tax purposes.

| Question   | What the Manager says  | What FundSource 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><i>As at 31 March 2018:</i></p> <table border="0"> <tr> <td>Conservative Fund:</td> <td style="text-align: right;">\$ 185.5M</td> </tr> <tr> <td>Diversified Income Fund:</td> <td style="text-align: right;">\$ 1,789.3M</td> </tr> <tr> <td>Balanced:</td> <td style="text-align: right;">\$ 507.3M</td> </tr> <tr> <td>Active Growth:</td> <td style="text-align: right;">\$ 911.4M</td> </tr> <tr> <td>Global Equity Fund:</td> <td style="text-align: right;">\$ 406.0M</td> </tr> <tr> <td>Trans-Tasman Equity Fund:</td> <td style="text-align: right;">\$ 316.9M</td> </tr> <tr> <td>Dynamic Fund:</td> <td style="text-align: right;">\$ 202.2M</td> </tr> <tr> <td>Aus Absolute Growth Fund:</td> <td style="text-align: right;">\$ 77.9M</td> </tr> <tr> <td><b>Manager Total FUM:</b></td> <td style="text-align: right;"><b>\$5, 628.8M</b></td> </tr> </table>  | Conservative Fund:   | \$ 185.5M | Diversified Income Fund: | \$ 1,789.3M | Balanced: | \$ 507.3M | Active Growth: | \$ 911.4M | Global Equity Fund: | \$ 406.0M | Trans-Tasman Equity Fund: | \$ 316.9M | Dynamic Fund: | \$ 202.2M | Aus Absolute Growth Fund: | \$ 77.9M | <b>Manager Total FUM:</b> | <b>\$5, 628.8M</b> | <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 October 2007, and has attracted strong investment flows, raising over \$312 million.</p> <p>FundSource notes that Milford diversified funds can inter-fund in to sector funds, including this Fund.</p> |
| Conservative Fund:   | \$ 185.5M  |  |           |                          |             |           |           |                |           |                     |           |                           |           |               |           |                           |          |                           |                    |   |
| Diversified Income Fund:   | \$ 1,789.3M  |  |           |                          |             |           |           |                |           |                     |           |                           |           |               |           |                           |          |                           |                    |   |
| Balanced:  | \$ 507.3M  |  |           |                          |             |           |           |                |           |                     |           |                           |           |               |           |                           |          |                           |                    |   |
| Active Growth:   | \$ 911.4M  |  |           |                          |             |           |           |                |           |                     |           |                           |           |               |           |                           |          |                           |                    |   |
| Global Equity Fund:  | \$ 406.0M  |  |           |                          |             |           |           |                |           |                     |           |                           |           |               |           |                           |          |                           |                    |   |
| Trans-Tasman Equity Fund:  | \$ 316.9M  |  |           |                          |             |           |           |                |           |                     |           |                           |           |               |           |                           |          |                           |                    |   |
| Dynamic Fund:  | \$ 202.2M  |  |           |                          |             |           |           |                |           |                     |           |                           |           |               |           |                           |          |                           |                    |   |
| Aus Absolute Growth Fund:  | \$ 77.9M   |  |           |                          |             |           |           |                |           |                     |           |                           |           |               |           |                           |          |                           |                    |   |
| <b>Manager Total FUM:</b>  | <b>\$5, 628.8M</b>   |  |           |                          |             |           |           |                |           |                     |           |                           |           |               |           |                           |          |                           |                    |   |
| <p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p> | <p>Sam Trethewey and Wayne Gentle are the Portfolio Managers of the Fund with Sam responsible for the New Zealand portion of the Fund and Wayne for the Australian portion.</p> <p>Sam joined Milford in 2014, and has been managing the New Zealand Equities portion of this Fund since April 2017. He was previously co-manager from June 2015. Prior to Milford, Sam worked for Craigs Investment Partners in the Equity Capital Markets team advising on a wide range of equity issuance and in the Corporate Finance team at PricewaterhouseCoopers.</p> <p>Wayne joined Milford in 2016 and has over 20 years' experience in investment markets with a strong track record in managing a diverse range of Australian equities portfolios. Prior to joining Milford, Wayne held the position of Deputy Head of Australian Equities at Colonial First State Global Asset Management. Previously, Wayne has held Senior Analyst and Deputy Head of Research roles at Allianz Global Investors and JP Morgan. Wayne holds a Bachelor of Economics degree from Sydney University, a Postgraduate Diploma in Applied Finance &amp; Investment from the Securities Institute of Australia and is a graduate of the Australian Institute of Company Directors.</p> <p>Sam and Wayne have managed the Fund together since July 2016 and 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>Trethewey assumed the role as the Fund's Portfolio Manager (PM) in April 2017. FundSource notes this is Trethewey's first role as lead PM, but acknowledges Trethewey held Co-Manager responsibilities with Brian Gaynor from September 2015 for the New Zealand Equities portfolio. FundSource is aware that Trethewey has been gradually introduced to the PM role since commencing with the Manager. This is indicative of a strong culture of support and staff development. The pairing with Gentle is considered very important, bringing some PM continuity, but importantly the ability for Trethewey to leverage the experience Gentle has brought to Milford, including his Australian equities experience to the portfolio. Trethewey can 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 is 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</p> |           |                          |             |           |           |                |           |                     |           |                           |           |               |           |                           |          |                           |                    |   |

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|   |   | members are expected to express views and opinions, regardless of that person being directly responsible for a specific fund.   |
| What objective is the Manager trying to achieve?  | The objective of the Fund is to provide capital growth by out-performing a mix of two relevant share market indices over the minimum recommended investment timeframe (5 years).  | <p>The Fund has a primary aim to achieve capital growth, after fees and charges. The Manager has set an equal weighted benchmark index S&amp;P/NZX 50 Gross Index, and S&amp;P/ASX 200 Accumulation Index (100% NZD Hedged). The Manager introduced a reference benchmark change, on 1 April 2018. FundSource considers this to be a minor change. Investors should note this does not impact the Fund's ability to actively manage currency exposure to the AUD.</p> <p>The Fund will achieve its objectives by primarily investing in Australasian equities, which will be skewed to companies that are expected to grow, rather than provide regular income. FundSource notes there is potential for periods of greater volatility than the Fund's reference index.</p> <p>The Fund's ability to meet or exceed its objective basis is detailed in the Fund's <a href="#">monthly fund updates</a>. Additional performance information can be found on <a href="#">Disclose website</a>, and via <a href="#">FundSource</a>.</p> |
| What does the Manager invest your money into?     | <p>This Fund primarily invests in Australasian equities.</p> <p>Over the long term the Fund is expected to have the following asset allocation:<br/>Australasian Equities 95%<br/>Cash and Cash Equivalents 5%</p> <p>The Australasian equities allocation is split approximately 50% to NZ equities and 50% to Australian equities</p> <p>The Portfolio Managers are empowered to make tactical asset allocation decisions on an active and continuous basis, helping to improve risk-adjusted returns and do not automatically rebalance back to targets.</p> <p>However, the Portfolio Managers actively review positions in light of targets and these targets are periodically reviewed.</p> | <p>The benchmark asset allocation for the Fund is in line with the equal weighting of the New Zealand and Australian benchmarks. FundSource notes that historically Australian equities utilised its range more so than the New Zealand equities allocation. However, the Manager will make changes based on their macro views. While the Fund has a targeted asset allocation, investors can expect the Fund to make active asset allocation decisions.</p> <p>Trethewey is responsible for managing the New Zealand equity security selection. Gentle is responsible for the Australian equity security selection. Both Trethewey and Gentle are responsible for the asset allocation mix of the Fund.</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 <a href="#">milfordasset.com</a>), however specifically for this type of fund the inherent risks are:</p> <ul style="list-style-type: none"> <li>- Investment return risk</li> <li>- Market risk</li> <li>- Liquidity risk</li> <li>- Currency risk</li> <li>- Entity risk</li> <li>- Counterparty risk</li> <li>- Country concentration risk</li> <li>- Derivative risk</li> <li>- Small and medium sized entities risk</li> </ul>  | <p>The Manager is aware of a broad range of risk embedded in the Fund. The Manager, while predominantly privately owned 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 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 insurance. FundSource highlights the Fund manages some of the risks pointed out above via Australasian equities. The broad</p>  |

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|  |  | <p>ranges available to the Fund and potential to invest in New Zealand and international fixed interest and listed property could alleviate some risks. Any allocation to fixed interest or listed property is not expected to be meaningful for this Fund.</p> <p>FundSource notes the Fund has the ability to change its allocation quickly and meaningfully, historically the Fund has implemented changes up to 15%, on quarter to quarter basis, between New Zealand and Australian equities. FundSource highlights that changes are not typically greater than <math>\pm 5\%</math> from quarter to quarter.</p>   |
| <p>Why does the Manager believe the future prices of the Fund's investments will vary?</p>                                       | <p>The Fund invests predominantly in listed 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, this Fund is style neutral and has the ability to move to a 30% cash weighting 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 and where 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 the Manager's ability to change asset allocation meaningfully and quickly.</p> <p>The asset allocation along with security selection are the largest contributors to performance. FundSource notes the Manager's <a href="#">Statement of Investment Policy and Objectives (SIPO)</a>, clearly outlines the process and guidelines on what the Manager can and cannot do, to assist in managing risk.</p> <p>FundSource notes the Manager can short sell individual stocks, to a maximum of 25% of the fund's net asset value. Derivatives are used to primarily manage risk or enable the Fund to implement its investment strategy efficiently. FundSource highlights the Fund is not able to borrow, or gear. FundSource has been advised by the Manager that short selling or the use of derivatives is not expected to be material or used often.</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 December 2017, 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 of, Australian companies. This approach</p> | <p>The Fund's return to investors, available on the <a href="#">Manager's</a>, <a href="#">FundSource</a>, and <a href="#">Disclose</a> website, highlights the Fund's return compared to its benchmark. Compared to the 25 FE Analytics NZMI Equity Australasia sector peer funds, this Fund has performed above the average for all periods over the past 10 years. This has been achieved with approximately sector average volatility, of the 25 sector peer funds.</p> <p>The Manager outlines <a href="#">what they offer</a> to investors, and the <a href="#">guiding principles</a> 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 <a href="#">SIPO</a>, the Manager presents its case as to why a potential investor should consider investing in this Fund.</p>  |

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|  | <p>has delivered strong long-term returns and we believe it will continue to do so.</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>FundSource notes that the Manager's growth in personnel, including investment personnel, represents a strong commitment to New Zealand investors. Coupled with the strong tenure of key investment personnel, and consistency in the way money is managed, is viewed positively, despite the 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, both in New Zealand and Australia, 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 Managers.</p>  | <p>FundSource believes the Manager's company visitation program to be high compared to most New Zealand Managers. 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 Trans-Tasman Equity 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 Managers invest 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 December 2017 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 derive the best possible performance while constantly being aware of downside risk.</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 investor outcomes, as Milford staff will have a performance advantage over time, relative to the size of the discount applied. Compounding is one of investing's most powerful tools, therefore any advantage gained can change the outcome. The</p> |

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|   |  | <p>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 is style neutral providing the Portfolio Managers the option to invest where they deem the best return for a given level of risk.</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:<br/> <a href="https://milfordasset.com/documents/">https://milfordasset.com/documents/</a></p> <p>Current SIPO Ranges:</p> <p>By Growth vs Income:<br/>         Growth Assets 70-100%<br/>         Income Assets 0-30%</p> <p>By Asset Class:<br/>         Cash and Cash Equivalents 0-30%<br/>         International Fixed Interest 0-20%<br/>         NZ Fixed 0-20%<br/>         Australasian Equities 70-100%<br/>         Listed Property 0-20%<br/>         Unlisted Property 0-10%</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. A change in PM, which occurred in April 2017, is likely to introduce a different perspective, given the degree of freedom the Manager affords each PM. For this Fund, Gentle continuing in a PM role brings consistency, despite his relatively short tenure at Milford. Trethewey also has relatively short tenure at the Manager, however has had time to develop under the stewardship of Gaynor and Jonathan Windust, as a New Zealand equity analyst and co-portfolio manager of the NZ Equities Wholesale Fund.</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.</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 100% hedged, which effectively allows the Fund to fully hedge the Australian equities portion of the portfolio. The Portfolio Manager can and does take active foreign exchange positions. The Manager believes that the ability to take 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 after-fee return.</p> <p>We believe our base fee on this Fund is fair given the active investment approach.</p> <p>Performance fees are payable only when the Fund outperforms its benchmark/hurdle rate.</p> <p>Our long term after-fee returns rank strongly in industry surveys.</p> <p>Milford's fund management fee covers all Fund operating costs including investment</p>  | <p>The Fund, is one of 16 funds that charge a performance fee in the FE Analytics NZMI Equities Australasia sector. The performance fee is 15% of the amount by which the performance of the Fund (after the deduction of the capped management fee but before tax and before the performance fee) exceeds the hurdle rate of return. The Fund's performance fee benchmark is hybrid 50:50 mix of the S&amp;P/NZX 50 Gross Index, 50% S&amp;P/ASX 200 Accumulation Index (100% New Zealand Dollar hedged), measured across six-month performance payment review periods.</p>  |

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|   | <p>management, supervisor, custodial, Fund accounting, and audit &amp; legal costs. Other funds in the industry may charge an investment management fee plus an additional capped expense recovery fee for other separate costs that Milford absorbs in our management fee.</p>  | <p>FundSource believes when performance fees are charged the basic fee should be below market average. This Fund has a manager basic fee that is slightly below the FE Analytics NZMI Equities Australasia sector peer average. FundSource notes that level of the performance fee, 15%, is in line with the FE Analytic sector peers that charge a performance fee.</p> <p>FundSource prefers that Funds use a market based performance hurdle, which this Fund uses. The hybrid nature of the performance fee reference index is in line with the Fund's long term asset allocation. The Manager provides performance based fee guidance in the Fund's <a href="#">Product Disclosure Statement (PDS)</a> and via the <a href="#">Disclose website</a>.</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. 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, 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.</p> |

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|  |   | <p>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-employees retaining their shares. FundSource believes owning equity in the 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> |

## Conclusion and Rating

The Fund provides investors with exposure to a portfolio primarily consisting of Australasian shares but can invest in to property and fixed interest sectors as well. The asset allocation mix is achieved by co-investing in a New Zealand equity wholesale fund, and Australian equity wholesale fund. The Fund is active in its allocation to New Zealand and Australian equities. The Manager can make swift and meaningful asset allocation decisions, and the Fund has the ability to use derivatives and options, which are used to manage portfolio risks. 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 overall has strong industry experience. Sam Trethewey

has relatively short industry experience, and has been groomed in to the New Zealand equity Portfolio Manager role. This is complimented with Wayne Gentle's significant industry experience as Head of Australian Investments and Portfolio Manager of the Australian equity funds. The interests of the investment team are strongly aligned to those of the investor, via equity, and investment in the Fund. 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 slightly below the peer average in the FE Analytics NZMI Australasian Equities sector. FundSource prefers to see meaningful reductions in manager basic fees, when performance fees are being charged. The performance fee calculation is based on the Funds market based hybrid index. This is in line with FundSource's preference for performance fee hurdles and high-water marks to be market linked, rather than absolute.

FundSource recommends that investors carefully consider the Managers income focused, 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%                 | 4.25 / 5              |
| Investment Philosophy & Process         | 20%                 | 4.40 / 5              |
| People                                  | 25%                 | 4.33 / 5              |
| Portfolio Construction & Implementation | 15%                 | 3.50 / 5              |
| Risk Management                         | 15%                 | 4.20 / 5              |
| Investment Fees                         | 10%                 | 3.71 / 5              |

Overall Average Score: **4.13 / 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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