



Qualitative Fund Research

Nikko AM Corporate Bond Fund

May 2018



Fund Manager of the Year

About the Manager

Nikko Asset Management (Nikko AM) acquired Tyndall Investments, both Australia and New Zealand in 2011, with Tyndall changing its name to Nikko Asset Management New Zealand Ltd (the Manager, Nikko NZ). Nikko NZ is one of New Zealand's largest asset managers, providing solutions to a broad range of clients, including corporate superannuation schemes, various trust structures, financial planners, banks, KiwiSaver Schemes and retail investors through platforms, as detailed [here](#).

Nikko NZ is an active investment manager with a medium term focus, who can leverage the broader team of ~200 investment professionals across 11 [global-offices](#), Nikko NZ see this as being a unique advantage.

Nikko NZ, through Nikko AM, believe in strong [governance](#) frameworks and leveraging its global resources to deliver best in class systems, policies and procedures. This extends to dedicated statements on [social responsibility](#). FundSource view corporate citizenship and governance frameworks as extremely important foundations from which a manager starts to engage with the clients' experience, this is overseen by Nikko NZ's [Executive Chairman](#).

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 Nikko AM Corporate Bond Fund ("the Fund") is a retail Fund that invests in to the Nikko AM Wholesale NZ Corporate Bond Fund. In both cases the Fund invests in to New Zealand issued or New Zealand dollar denominated debt. As such the Fund will generally sit within the defensive component of a balanced portfolio, more specifically the fixed interest asset class.

The Fund's objective is to outperform the Fund's benchmark, being the Bloomberg NZBond Govt 0+ Year Index, by 1.5% per annum.

Nikko NZ manages eleven funds:

- Nikko AM Core Equity Fund
- Nikko Concentrated Equity Fund
- Nikko AM Global Shares Fund
- Nikko AM Global Equity Unhedged Fund
- Nikko AM Global Equity Hedged Fund
- Nikko AM Cash Fund
- Nikko AM NZ Bond Fund
- [Nikko AM Corporate Bond Fund](#)
- Nikko AM Income Fund
- Nikko AM Global Bond Fund
- Nikko AM Multi-Strategy Fund

The funds are managed by a team of seven investment professionals, [four](#) being dedicated equity strategies and [three](#) to fixed income strategies. The global equities strategy is a multi-manager approach, managed by a Sydney based specialist team. Nikko AM have recently launched a single manager Global Shares fund managed by their Edinburgh based team. Goldman Sachs Asset Management is the appointed global fixed income manager, while JP Morgan Alternative Asset Management are the appointed alternatives manager. As the global equity, bond and alternatives funds are managed by either external Nikko teams or external managers, for the number of funds being managed the team is adequately resourced.

The Fund is subject to fixed interest market risk and movements (both positive and negative), from a domestic New Zealand perspective, but can include exposure to global fixed interest markets via New Zealand dollar fixed interest issuance. Accordingly, the Fund may experience periods of negative returns, and there is a risk of potential capital loss being incurred on their investment. The Fund is suitable for investors with a minimum investment time horizon of more than three years.

The Fund may enter into derivative contracts, this is to primarily manage market risks.

The Fund is an NZD denominated Portfolio Investment Entity (PIE). The Fund's returns are distributed quarterly, in March, June, September and December.

Question	What the Manager says	What FundSource thinks																						
<p>What are the Manager's assets under management - in total and in this Fund?</p>	<p>Nikko AM NZ is solely in the business of investment management. Nikko AM NZ actively manages over NZ\$5 billion of investments for corporate superannuation schemes, community trusts, charitable trusts, foundations, financial planners, banks, insurance companies, KiwiSaver Schemes, corporations, other fund managers and retail investors through platforms.</p> <p>Retail Funds Under Management (FUM), as at 31 March 2018:</p> <table border="0"> <tr> <td>Core Equity</td> <td>\$11.46M</td> </tr> <tr> <td>Concentrated Equity</td> <td>\$42.18M</td> </tr> <tr> <td>Global Equity Unhedged</td> <td>\$115.42M</td> </tr> <tr> <td>Global Equity Hedged</td> <td>\$56.49M</td> </tr> <tr> <td>Cash</td> <td>\$110.18M</td> </tr> <tr> <td>NZ Bond</td> <td>\$51.25M</td> </tr> <tr> <td>NZ Corporate Bond</td> <td>\$107.37M</td> </tr> <tr> <td>Income</td> <td>\$11.30M</td> </tr> <tr> <td>Global Bond</td> <td>\$22.31M</td> </tr> <tr> <td>Multi-Strategy</td> <td>\$112.10M</td> </tr> <tr> <td>Total FUM:</td> <td>\$5.25B</td> </tr> </table>	Core Equity	\$11.46M	Concentrated Equity	\$42.18M	Global Equity Unhedged	\$115.42M	Global Equity Hedged	\$56.49M	Cash	\$110.18M	NZ Bond	\$51.25M	NZ Corporate Bond	\$107.37M	Income	\$11.30M	Global Bond	\$22.31M	Multi-Strategy	\$112.10M	Total FUM:	\$5.25B	<p>Nikko Asset Management New Zealand is one of the larger fund managers in New Zealand. For the types of strategies, and number or strategies the business has significant total funds under management.</p> <p>The NZ Bond Fund commenced in 16 October 2007, and as at 31 December 2017, has \$193.93 million of wholesale and retail money invested. The retail component accounts for \$107.37 million.</p>
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<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>Fergus McDonald is responsible for the investment strategy, performance and compliance of Bond, Cash and Currency hedging for a range of clients. Fergus has been actively involved in the New Zealand financial markets since 1981. He joined the company in 1990 as the Fixed Interest Manager. Fergus has considerable experience in managing bond portfolios that combine Government stock and derivatives with corporate debt securities. He was instrumental in developing and managing New Zealand's first corporate bond unit trust. Fergus holds a BA Economics, Victoria University and Certificate of Treasury Professionals. The Nikko AM New Zealand fixed interest team comprises of Fergus McDonald (Head of Bonds and Currency), Ian Bellew (Fixed Income Manager), and Tim O'Loan (Fixed Income Analyst), and as a team average over 22 years' experience. All members of the team have research and recommendation responsibilities.</p>	<p>McDonald has held the role of Portfolio Manager (PM) for this Fund since 1992, having Joined the Manager in 1990 as a Fixed Interest Manager. With over 36 years' experience McDonald has held portfolio management and analyst responsibilities, and has a broad knowledge across Government stock, derivatives, and debt securities, for both benchmark aware and high conviction uncorrelated funds. McDonald is considered a key person within the Nikko fixed interest team, accordingly key person risk is reasonably high.</p> <p>McDonald is supported by Bellew, who is responsible implementation of the investment strategy and day to day management of the fixed income and option. Bellew has over 19 years' industry experience and manager tenure. O'Loan joined Nikko in 2012 and assists Bellew and McDonald with the management of the fixed income portfolio's. O'Loan also implements the currency hedging for off shore assets.</p> <p>The New Zealand based investment team can leverage the broader Nikko global investment platform, spread across 11 countries. FundSource doesn't believe the broader Nikko team will not significantly influence this Fund significantly, mostly due to the localised focus of the Fund. FundSource believes the depth and breadth of resources in the Nikko Fixed Interest team to be extremely strong.</p>																						
<p>What objective is the Manager trying to achieve?</p>	<p>The Fund aims to provide investors with regular income by constructing an actively managed investment portfolio of New</p>	<p>The Fund has two aims first and foremost protect capital, and secondly to provide investors with regular income. The Manager has clearly stated the targeted return an investor can expect, compared to</p>																						

	<p>Zealand corporate bonds, deposits and cash with the potential for capital gain from New Zealand dollar fixed interest markets.</p>	<p>the Bloomberg NZBond Govt 0+ Yr Index which is aligned with the fixed interest asset class.</p> <p>Nikko AM NZ applies a low-risk approach in the NZ cash and fixed income sectors, reflecting the conservative nature of these assets. The Fixed Income team believes that the purpose of a fixed income portfolio is to provide capital stability and reliable income and they aim to create diversified portfolios with sound risk characteristics.</p> <p>FundSource notes that the Manager reports performance in its Factsheets and their website before tax, and after fees and expenses. Further performance data is available via the Disclose website and FundSource.</p>
<p>What does the Manager invest your money into?</p>	<p>The Nikko AM NZ Corporate Bond Fund can invest in the following:</p> <ul style="list-style-type: none"> • Debt securities issued or guaranteed by an NZ registered bank or equivalent overseas institution • Debt securities issued by a state owned enterprise, • Debt issued by the NZ Government or a foreign Government, • Debt issued by a NZ local authority and • Debt issued by an overseas corporate • Cash, Deposits or derivative instruments <p>The fund only invests in investment grade securities</p> <p>Cash balances with brokers, agents or custodians (local and overseas) pending investment or pending payment to the manager.</p> <p>Cash and deposits with, or debt securities issued or guaranteed by:</p> <ul style="list-style-type: none"> – The New Zealand government, government department, or any debt obligation guaranteed by the New Zealand government. – The NZ Local Government Funding Authority (LGFA). – Any debt security listed on any recognised securities exchange or traded in secondary markets. – Any New Zealand local authority. – Any New Zealand registered bank or equivalent institution in any other country issuing NZ dollar debt. – Kauri bonds. – Corporations incorporated, constituted or registered in New Zealand. – Corporations incorporated, or registered outside New Zealand, issuing New Zealand dollar denominated debt. (deemed 	<p>The Manager will construct the portfolio from a set of authorised investments that aims to outperform the Fund's benchmark return over a rolling three year period before fees. The Fund can invest in cash, debt securities, derivatives, products that invest in the specified securities, or other investments as agreed by the Manager and Supervisor. To assist in managing portfolio risk, the Fund has established a set of restrictions the investment team must meet.</p> <p>Investors should be aware the retail Fund invest in to the Nikko AM Wholesale Corporate Bond Fund. This is not unusual, as the objectives of each fund are similar, however where a difference may occur, the Manager must adhere to the retail Funds mandate, as outlined in the Fund's Statement of Investment Policy and Objectives (SIPO).</p> <p>This Fund will have exposure to corporate bonds and NZ registered banks. Accordingly, the risk is higher than the Nikko AM NZ Bond Fund has a lower weighting to the corporate bonds and NZ registered banks. FundSource notes the risk indicator on the respective fund profiles sees the Corporate Bond Fund risk indicator set at 2. FundSource notes the Corporate Bond Fund aims to outperform its benchmark by 1.5% per annum, which is higher than the NZ Bond Fund.</p>

	to be New Zealand fixed interest for Strategic Asset Allocation purposes).	
<p>What are the inherent risks imbedded in the Fund?</p>	<p>Investing in the fund has some general investment risks which are covered in the NZ Bond Funds PDS - being Interest Rate Risk, Market Risk, Liquidity Risk, Credit Risk and Derivative Risk. There are no other fund specific risks.</p>	<p>The Manager has a structured approach to managing risks in the portfolio and has highlighted a series of risks they are mindful of when constructing and managing the portfolio.</p> <p>The security selection process is structured around a top down macro focused process, from which a set of core fixed interest rate based assumption will drive the Manager's views on credit quality, duration and interest rate risk. These three key factors determine portfolio positioning. The veracity of the Manager's assumptions is considered to be a meaningful risk. This is mitigated by the ability to leverage the broader Nikko investment team of over 140 professionals.</p> <p>The Manager doesn't rely on external inputs, such as broker reports and recommendations. Rather all research is created internally, and ideas are debated at regular weekly and monthly meetings, as well as ad-hoc. All members provide input in to the Manager's fixed interest investment products. FundSource believes this approach helps to mitigate key person risk.</p>
<p>Why do they believe the future prices of the Fund's investments will vary?</p>	<p>Different market environments favour different return generators; by having a diverse range of return generators the portfolio will have a high probability of performing well under all market conditions.</p>	<p>The Manager believes that consistent and superior returns are achieved by having a diverse range of return generators, implemented in a risk-controlled and cost-effective manner. Over time each return generator is expected to add elements of incremental value, which accumulate to provide consistent and superior results.</p> <p>The Fund employs top-down analysis, which focuses on medium term economic fundamentals, which is better aligned to the Fund's benchmark duration range. Diversification is the key objective the Manager seeks to bring to constructing the portfolio. Portfolio diversification looks to focus on two factors, achieving multiple sources of value and, ensure correlations across investments are low. This should help the portfolio traverse market movements with smoother returns.</p> <p>The Manager has three key aspects it seeks to understand, duration management, yield curve enhancement and corporate debt management. Most securities are held for 2-4 years, which may differ from a securities maturity date., accordingly, securities can be bought and sold on both the primary or secondary markets.</p> <p>FundSource notes that the fixed interest team do work with the equity team and vice versa, to understand key aspects of each part of the capital structure. FundSource notes that poor drivers for an equity investment may be positive for fixed interest investments.</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>Under the leadership of Fergus McDonald, the team has fostered a dynamic culture that serves as a platform for ongoing success. The team has a high level of experience and skill with Nikko AM providing best in class infrastructure and operational resources. The team has built a strong track record vs. peers and the benchmark. Over the past 5 years the NZ Bond Fund has returned 1.3% p.a* above the benchmark. The passive offering in New Zealand costs 0.54%, by comparison, the Nikko AM NZ Bond Fund costs 0.80%</p> <p>*Note all performance data quoted is Gross Returns</p>	<p>FundSource believes that the Manager's commitment to sustainable investing, environment, social and governance (ESG), is a positive step, particularly from a fixed interest perspective. Nikko Asset Management is an early adopter of this global framework and has embedded it in to the New Zealand operations.</p> <p>Compared to the 29 peer funds in the FE Analytics NZMI Fixed Interest New Zealand, the Fund performance has been above the above the sector average. This has been achieved with slightly higher volatility compared to the FE Analytics sector peer average. FundSource views this positively and is reflective of McDonald's ability to keep the fund performing consistently over its long history as a wholesale fund.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>Nikko AM NZ believes that consistent and superior returns are achieved by having a diverse range of return generators, implemented in a risk-controlled and cost-effective manner. Over time each return generator is expected to add elements of incremental value, which accumulate to provide consistent and superior results.</p> <p>The overarching principle of the process is to construct an actively managed investment portfolio of New Zealand bonds, deposits and cash with the potential for capital gain from New Zealand dollar fixed interest markets.</p>	<p>The Manager takes a low risk approach to New Zealand fixed interest, which is reflective of McDonald's conservative approach to the domestic market. Diversification and high credit quality assets is viewed as a core outcome for the investment team, to assist the portfolio remains lowly correlated over a market cycle.</p> <p>The Manager forms an internal view on the relationship between global interest rates, primarily USA and NZ. This drives the Manager's view on interest rates. Domestic economic activity and RBNZ monetary policy setup drive the Manager's views on yield curve, and duration. Overall this determines the mix of assets and the how the Fund can gain exposure to those themes. Relative value between sectors such as Government, Local Authority, Bank, Corporate and Kauri Bonds are analysed to determine potential investment returns. A similar relative value analysis is also conducted to determine which securities are likely to outperform over a one to three year time horizon. Credit risk, ESG issues and likely credit margin movements are also features taken into account when deciding which investments are bought and sold.</p> <p>While there is a degree of science behind this process, FundSource believes that art plays a significant part of the Manager process. FundSource notes that there are a number of successful fund managers that employ art, more so than science, especially in the equity sector. Art is characterised by long industry tenure and experience through several market cycles. Importantly, FundSource doesn't wasn't to overstate the influence the art component, rather it is used in conjunction with science.</p> <p>The Manager's preference is to invest in New Zealand bonds, or NZD issuance, via primary markets, and by physical rather than synthetic, or derivative, holdings in the portfolio.</p>

<p>Has the CIO personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>Fergus McDonald and Ian Bellew both have significant investments in funds managed by the NZ Fixed Interest team</p>	<p>FundSource believes that managers should 'eat their own cooking'. Correspondingly.</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. FundSource believe that the investment team pay the same fees as investors.</p> <p>FundSource notes that bonds are a part of an overall diversified allocation. This implies that the fixed interest investment team may hold investments with other Nikko AM NZ funds. This again aligns the investment team with investors. FundSource notes that the investment team cannot invest in individual securities. While it is possible to invest in managed funds outside of Nikko, FundSource highlights this hasn't happened to date. The investment team have invested in Nikko funds only.</p>
<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>The manager has some degree of latitude to actively implement the team's views. The fund is permitted to invest in a range of securities, provided they are New Zealand domiciled or in New Zealand dollars.</p> <p>Tracking Error: na Duration: ± 2.5 years Cash Allocation: 0% to 50% NZ Fixed Interest: 0% to 100% Credit Quality: Varies ≥BBB- Single security: Varies by issuer Debt and Unlisted securities: 0% Sub Investment Grade: Prohibited Non PIE Managed Fund: Prohibited Currency hedging: 100%</p>	<p>FundSource highlights this Fund is expected to be fully invested in a broad range of fixed interest securities, rather than cash. Noting that bank deposits, for example term deposits, are classified as fixed interest, rather than cash investments, for the purpose of portfolio construction.</p> <p>The Fund has put in place a series of restrictions, which are aimed at ensuring the Manager consistently meets its stated objective. The primary restrictions focus on ensuring the exposure limits to credit quality for the fund remains well above investment grade, and the duration of the Fund in a +/- 2.5 year range of the benchmark duration. Fundamentally, the requirement to remain diversified needs to be supported by exposure limits, or the Fund risks becoming overly concentrated. This Fund cannot invest in sub investment grade debt.</p> <p>Investors should be aware that not all instruments have to be individually rated, as the Manager can use the credit rating of the issuer or deposit taker. The issue or issuer credit rating is required to be investment grade – i.e. rated BBB- or higher.</p> <p>In the event of a downgrade the Fund can remain invested in a security. The Fund caps investment in BBB rated securities at 5% of the Wholesale NZ Corporate Bond Fund. The ability to remain invested allows the Manager to review the situation and take appropriate action, rather than have to immediately sell the security, which may be affected by a credit down grade.</p>
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>Relative to similar actively managed offering in the market the NZ Corporate Bond Fund offers strong value for money. Investing in the NZ Corporate Bond Fund</p>	<p>The Manager discloses all fees in the Product Disclosure Statement, and the Disclose website.</p>

	<p>provides investors access to an experienced, well resourced team with a strong track record of outperforming both peers and the benchmark over the medium term.</p>	<p>FundSource note that the Manager's basic fee, of 0.7%, is in line with the average fee, of the 29 peer funds in the FE Analytics NZMI Fixed Interest New Zealand sector. FundSource highlights that the Manager caps the operating expense fee of 0.25%. Overall FundSource believe that the fees are competitive, which is important. A lower fee is a positive attribute, the fixed interest sector is often about incremental change, rather than the potentially higher return and volatility of equity type funds.</p>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>Nikko AM NZ has a robust globally monitored governance structure, with well-established committees and an experienced, mature Board. Decision making is timely but considered, with a careful process to ensure all relevant information is presented prior to a decision. Decision making authority is clearly set out in a combination of policy and committee charters. All Board and committee meetings are minuted (generally by an internationally qualified company secretary) and records are kept in a central, secure database. Nikko AM NZ views compliance, systems and controls as a critical part of the investment process. The portfolio managers adhere to the mandate rules and risk profile in constructing and managing portfolios. Tim Morrison, Head of Compliance, is responsible for monitoring investment risk, and has a local reporting line to the Managing Director and an offshore reporting line to the Global Head of Investment Risk. The Compliance function also monitors mandate rule compliance on a post-trade basis. The New Zealand Compliance, Risk and Disclosure Committee has an oversight of portfolio risk. The Tokyo-based Performance and Risk team monitor portfolio risk and have meetings with the New Zealand fixed interest team at least once a month to review/discuss.</p>	<p>The Manager has a strong governance and compliance framework. The Manager's governance and compliance systems and personnel are separated from the investment team functions. The localised team have direct reporting lines to respective Global Heads. The Manager's commitment to compliance and governance can be viewed here.</p> <p>Nikko Asset Management became a signatory to the UN PRI in 2007, and believe that environment, social and governance underpin sustainable responsible investing, which can be viewed here.</p> <p>FundSource note that Nikko Asset Management NZ has appointed Tracey Jones as an independent non-executive director. FundSource has not met with Jones but is aware of her financial services background. FundSource commends Nikko for improving the diversity of its New Zealand directors.</p> <p>FundSource views formal Investment Committees positively. The Manager's Investment Committee is responsible for ensuring that investment mandates, and Statements of Investment Policy and Objectives (SIPO), are adhered to. The Investment Committee is not involved in day to day portfolio investment decisions.</p>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>Nikko Asset Management New Zealand Limited is a wholly owned subsidiary of Nikko Asset Management Co., Ltd, which is headquartered in Tokyo, Japan. Nikko Asset Management New Zealand is one of Asia's largest asset managers, providing high-conviction, active fund management across a range of Equity, Fixed Income and Multi-Asset strategies. In addition, our complementary range of passive strategies covers more than 20 indices and includes some of Asia's largest exchange-traded funds (ETFs).</p> <p>Investment personnel are remunerated by way of competitive market based salary, and short and long term incentives.</p>	<p>To preserve capital and generate a long-term positive return for investors, the Manager must remain operational. The Manager has significant funds under management, which has grown over time. Being a wholly owned subsidiary of a global company headquartered in Japan can come with risk, however since acquiring Tyndall, Nikko Asset Management has strengthened its commitment to New Zealand, adding new resources to the local team.</p> <p>FundSource highlight that the corporate alignment and remuneration of investment personnel is in line with large corporates. The investment team being invested in the products for which they are responsible is seen as being the strongest link to an investor's experience. This is viewed positively.</p>

Conclusion and Rating

The Fund provides investors with regular income from an actively managed diversified exposure, predominantly to New Zealand fixed interest, deposits, and cash. This is achieved by this Fund investing in the Wholesale Corporate NZ Bond Fund. FundSource expects the portfolio to be invested in NZ registered banks, corporate bonds, state owned enterprises, local authorities and deposits. The Manager is aware of the benchmark but is not constrained to investing as per the benchmark.

FundSource notes that the Fund states an expected outperformance of 1.50% over rolling three year periods, before fees, expenses and taxes, above the Fund's benchmark. FundSource notes this is one of the few NZ PIE funds that sets an outperformance expectation. FundSource views this positively and believes other fund managers should consider this.

FundSource's conviction in the Manager is underpinned by several, small in isolation, factors which FundSource expects will contribute positively to an investor experience. The investment team has been very stable, underpinned by McDonald's significant industry experience and manager tenure. The investment team can leverage resources around the Nikko group, particularly for

macro inputs, however, FundSource notes the ability to incorporate this in to the Fund is not easy due to the focused approach to New Zealand bond markets. The risk management, compliance and governance oversight are very strong, and embedded in to the culture of Nikko NZ. Nikko AM is well resourced globally, and the investment teams can, and do, communicate ideas. There is a good mix of local expertise, blended with strong global oversight. An encouraging sign is the recent appointment of a non-executive director to Nikko NZ, bringing independent views and adding diversity to the Nikko NZ board.

The Manager's basic fee is in line with the peer average in the FE Analytics NZMI Fixed Interest New Zealand sector. This remains the case when other management and administration expenses are charged.

FundSource recommends that investors carefully consider that the Managers flexible mandate requirements, compared to the benchmark, while note being beholden to the benchmark, meets their 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%	3.60 / 5
People	25%	4.33 / 5
Portfolio Construction & Implementation	15%	3.50 / 5
Risk Management	15%	4.20 / 5
Investment Fees	10%	4.00 / 5

Overall Average Score: **4.00 / 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 which have excellent managers, stable senior personnel, a sound track record over a full market cycle, a clearly defined investment philosophy, and a portfolio consistent with that philosophy. The management company will also have established effective control procedures to maintain that philosophy.

AA: Recommended

Funds will have first class, experienced managers, and a sound track record and reasonable stability of senior personnel where the management philosophy must be coherent and consistent with existing portfolios.

A: Investment Grade

This category of funds covers most of the reasonably experienced, competent managers, but often with less stability of personnel than the higher rating trusts.

FW: Fund Watch

There has been a material change with either the manager, this may include, but is not limited to, departures, new hires, process changes, changes to the investment philosophy. This is considered to be an interim measure, to enable further investigation, re-evaluation and an appropriate course of action to be determined.

S: Sell

This category covers previously recommended funds that are no longer recommended because of some material change. Removal from recommended status might be for a variety of reasons such as a fundamental change in the fund management company or in the manager's investment strategy, or because a fund did not meet its original expectations. The implications for ongoing service are that the fund should be reviewed on an individual client basis to ensure it still matches their original investment objective.

NR: Not Rated – Screened/ Not Rated

Funds in the Not Rated – Screened category have provided information and/or FundSource has conducted an initial analysis of the fund, but has chosen not to provide a recommendation at this stage. FOR Not Rated funds the manager may have provided information, but no review meeting has been conducted.

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NZX owns a suite of securities and agricultural information businesses; managed fund research house FundSource; exchange traded funds provider Smartshares; and managed funds provider SuperLife.



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



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