



Qualitative Fund Research

QuayStreet International Equity Fund

September 2018



Awards 2018
Boutique Manager of the Year

About the Manager

QuayStreet Asset Management Limited (the Manager, QuayStreet) was re-established in 2014, as a wholly owned subsidiary of Craigs Investment Partners (CIP). CIP grasped the opportunity to assemble an experienced and dedicated funds management team. While relatively new, Quay Street has a strong base of funds under management and distribution. QuayStreet aim to deliver great investment returns and superb client service. The Manager has provided a brief profile available [here](#).

QuayStreet's investment philosophy is that an actively managed and concentrated selection of investments can provide better returns than market benchmarks. A broader description of the Managers philosophy is available [here](#).

QuayStreet makes available a range of investor resources outlining the broad investment beliefs including understanding risk, diversification and asset allocation [here](#) and socially responsible investment policy [here](#).

Using this Fund

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

The QuayStreet International Equity Fund ("the Fund") gives investors access to a portfolio of international equities, which offers diversification away from New Zealand and the NZD.

The Fund is subject to equity market risk and movements (both positive and negative), in the prices of the underlying securities comprising the portfolio. Investors should therefore be aware that the Fund may experience periods of negative returns, and that there is a risk of potential capital loss being incurred on their investment. The Fund is suitable for investors with an investment horizon of more than five years.

QuayStreet have 10 funds available in the market place:

- QuayStreet Income Fund
- QuayStreet Conservative
- QuayStreet Balanced Fund
- QuayStreet Growth Fund
- QuayStreet Fixed Interest Fund
- QuayStreet New Zealand Equity Fund
- QuayStreet Australian Equity Fund
- [QuayStreet International Equity Fund](#)
- QuayStreet Balanced SRI Fund
- QuayStreet Altum Fund

The International Equity Fund is directly managed by a team of five investment professionals, who represent the total QuayStreet investment team. For the number and type of funds being managed, the team is slightly under resourced, however is led by senior investment personnel with strong investment and portfolio management backgrounds. The Manager has provided individual bios for the team [here](#).

The fund intends to be fully invested via a concentrated portfolio of individual investments, making up 10%-45% of the portfolio, and a passive low cost exposure to market neutral or index based investment, making up 55%-85% of the portfolio.

The Manager views the allocation to cash as a defensive investment as well as a response to lack of suitable investments. Cash can range between 0%-80%, depending on the number of total return swaps represented in the portfolio and the Manager employs an active currency overlay across multiple currencies.

The Fund is a Portfolio Investment Entity (PIE). The Fund does not pay a distribution, any dividends from companies held in the portfolio are reflected in the Fund's unit price.

Question	What the Manager says	What FundSource think																						
<p>What are the Manager's assets under management - in total and in this Fund?</p>	<p>As at 30 June 2018 QuayStreet Asset Management had \$789.3m of net funds under management (FUM). The gross fund size of the QuayStreet International Equity Fund was \$223.5m.</p> <p><i>As at 30 June 2018:</i></p> <table border="0"> <tr> <td>Income Fund:</td> <td style="text-align: right;">\$ 118.4M</td> </tr> <tr> <td>Conservative Fund:</td> <td style="text-align: right;">\$ 68.4M</td> </tr> <tr> <td>Balanced Fund:</td> <td style="text-align: right;">\$ 188.5M</td> </tr> <tr> <td>Growth Fund:</td> <td style="text-align: right;">\$ 184.0M</td> </tr> <tr> <td>Fixed Interest Fund:</td> <td style="text-align: right;">\$ 192.3M</td> </tr> <tr> <td>New Zealand Equity Fund:</td> <td style="text-align: right;">\$ 57.9M</td> </tr> <tr> <td>Australian Equity Fund:</td> <td style="text-align: right;">\$ 53.0M</td> </tr> <tr> <td>International Equity Fund:</td> <td style="text-align: right;">\$ 233.5M</td> </tr> <tr> <td>Balanced SRI Fund:</td> <td style="text-align: right;">\$ 39.0M</td> </tr> <tr> <td>Altum Fund:</td> <td style="text-align: right;">\$ 52.2M</td> </tr> <tr> <td>Total in these PIE Funds:</td> <td style="text-align: right;">\$1,187.0M</td> </tr> </table>	Income Fund:	\$ 118.4M	Conservative Fund:	\$ 68.4M	Balanced Fund:	\$ 188.5M	Growth Fund:	\$ 184.0M	Fixed Interest Fund:	\$ 192.3M	New Zealand Equity Fund:	\$ 57.9M	Australian Equity Fund:	\$ 53.0M	International Equity Fund:	\$ 233.5M	Balanced SRI Fund:	\$ 39.0M	Altum Fund:	\$ 52.2M	Total in these PIE Funds:	\$1,187.0M	<p>The Manager has had significant funds under management growth across all funds since May 2017, increasing by over \$230 million, across its product suite. FundSource notes that QuayStreet commenced in 2014 net FUM of \$276.3m and has grown to a net FUM of \$789.3m in less than 4 years. This is a significant result and a testament to the effectiveness of the relationship between Craigs and QuayStreet.</p> <p>The International Equity Fund was established on 30 September 2009. FundSource notes the Manager has undergone changes with the investment team moving from another manager to QuayStreet in July 2014. A key component to the growth of the Managers FUM is its aligned distribution through Craigs Investment Partners, one of New Zealand's largest private wealth advisory businesses.</p> <p>FundSource notes that the difference in total FUM (net: \$789.3m vs gross \$1,187.0m) numbers is due to inter-funding from the diversified funds.</p>
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<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>James Ring (Director of International Equities) has been the portfolio manager for the International Equity Fund since 2014. Previously James Ring was Investment Manager at Rank Group Pension Funds, where he was responsible for managing the global equities portfolio. James has over 25 years of experience in financial markets and is supported by Andrew South (Director of Australasian Equities), Roy Cross (Senior Investment Analyst) and Stefan Stevanovic (Senior Investment Analyst) who have 25, 13 and 10 years of financial market experience respectively.</p> <p>QuayStreet was established in 2014 but the majority of the team worked together for almost 10 years at Brook Asset Management prior to joining QuayStreet.</p>	<p>Ring has been the Fund's Portfolio Manager (PM) since July 2014. Ring has previously worked as an investment manager at the Rank Group and Ellerston Capital, both family office owned. The investment philosophy for the Fund has been heavily influenced by Ring's time with family offices and offshore funds. FundSource notes that the fund management is a whole of team approach with South, Cross and Stevanovic supporting Ring. Ring has the ability to draw on additional external resources to identify stock specific, sector, and regional ideas. FundSource believes the ability for Ring to leverage resources assist in reducing key person risk, but notes key person risk remains high for this Fund.</p> <p>The Manager has taken a team approach to all 10 of its funds. While an additional resource was added in late 2016, the number of funds managed by a team of five is higher than most New Zealand managers. FundSource does acknowledge that the three diversified funds, such as this fund, are constructed from combining the asset allocation decisions and investing in to the single sector funds, simplifying the process and resource requirements.</p> <p>Operations, client services and compliance functions are all separated from the investment management functions. This ensures appropriate attention is being given to the operational aspects of investing and assists in keeping the investment personnel focused.</p>																						
<p>What objective is the Manager trying to achieve?</p>	<p>The investment objective is to provide investors with a level of return over the</p>	<p>The Manager has two key objectives, to provide a level of return consistent with the</p>																						

	<p>long term consistent with international share markets as well as diversification away from New Zealand dollar dominated investments, above the performance benchmark. The benchmark is the MSCI World Index Net Total Return (NZD).</p>	<p>international share markets and to exceed the performance of the Fund's benchmark. The Fund's performance is available on the Managers website, and is expressed on a before fees and tax basis.</p> <p>FundSource highlights the manager does not provide any guidance on the quantum of excess return and outperformance an investor should expect above the Fund benchmark.</p> <p>The Fund's historical performance has been above the FE Analytics NZMI International sector peer average for all periods greater than one year. Shorter term performance, less than one year, has been mixed. However, the Manager invests for the medium to long term, and is not driven by short term market dynamics.</p> <p>The Fund's performance is available on the Manager's website and is expressed on a before fees and tax basis. FundSource notes that the Funds benchmark does not consider fees and tax in its reporting either, which is not consistent with an investor experience. The inclusion of a table detailing returns after fees and tax is viewed positively, as it approximates an investor's experience. Further historical performance data is available on the Disclose website and via the FundSource website.</p>
<p>What does the Manager invest your money into?</p>	<p>The Fund is invested in a portfolio of globally listed securities such as shares (incl. preference and convertible shares), Exchange Traded Funds (ETFs), specialist sub managers and derivatives such as Futures, Options and Total Return Swaps. The mix of investments will vary and, at any point in time, all or a substantial proportion of the Fund's exposure may comprise one of the classes of instrument, including derivatives. It is intended that investments will generally remain unhedged to offer diversification away from the New Zealand dollar however at the manager's discretion the Fund may utilise currency hedging. The Fund may also be held as cash, term deposits or used as collateral for derivative contracts but will not be used to obtain leverage. The Fund's minimum and maximum limits across the different asset classes are provided below:</p> <p>Australasian Equities: 0% - 50% International Equities: 0% - 100% Listed Property: 0% - 50% Unlisted Property: 0% - 0% NZ Fixed Interest: 0% - 0% International Fixed Interest: 0% - 0% Cash: 0% - 80%</p> <p>Total Growth Assets: 20% - 100% Total Defensive Assets: 0% - 80%</p>	<p>The Fund predominantly invests in mid to large cap International listed companies, a range of passive and active exchange traded funds (ETF) and total return swaps (TRS). While there are no specific style biases for selecting companies, the ETF and TRS's can be very specific, reflecting the Manager's views at that point in time; for example, dividend focused ETF's.</p> <p>The Manager believes that market inefficiencies do exist and can be representative of short term investment thinking, an over reliance on broker research, lack of understanding of the company's business model and specific events such as index changes.</p> <p>The Manager has a long term investment perspective, which is supported by the Fund's low turnover. The investment team look to garner a deep understanding of a potential investment to assist in determining the intrinsic value of companies or themes that are being explored at a point in time.</p> <p>The Fund is suitable for investors who want an actively managed, benchmark aware, International equity fund, which affords the Manager a great deal of flexibility. The Fund looks to maximise investors' potential returns by focusing on sustainable business models that are trading at attractive valuations and complimenting the portfolio with regional</p>

		indexing via ETF and TRS exposure. FundSource believes the Manager upholds its long-term focus, across all its products, based around sustainability.
What are the inherent risks imbedded in the Fund?	<p>The International Equity Fund invests across different asset classes and across different regions. Some of the principal risks of investing are:</p> <ul style="list-style-type: none"> - Market risk (performance of financial markets) - Specific investment risk (individual security performance) - Asset allocation risk (asset class performance) - Currency & Country risk (changes in currency valuation or country specific risks) - Interest rate risk (changes in interest rates) - Counterparty risk (counterparties do not fulfil their obligations) - Liquidity risk (trade execution) 	<p>The Manager is aware of the broad range of risks, as documented in the Product Disclosure Statement (PDS).</p> <p>FundSource notes that the Manager subjects all investment ideas to a peer review process, rigorously debating all aspects of a current or potential investment. FundSource would prefer that the Manager implemented a formal investment committee approach, to provide consistency in the structure of the debate around companies.</p>
Why do they believe the future prices of the Fund's investments will vary?	<p>The Investment Team focuses on both quantitative and qualitative factors when making investment decisions. Some of these are as follows:</p> <ul style="list-style-type: none"> - Attractive valuation on a risk adjusted basis - Strong business model that provides sustainable cash flows and an attractive product/service offering - Solid position and power in its sector relative to competitors, potential new entrants and its key stakeholders - Good outlook for the sector the company operates in and low level of threats/risks for that sector (i.e. political, technological etc.) - High quality of management, strong corporate governance and impact on the society and environment <p>The Investment Team will also assess broad based economic factors when making asset allocation decisions such as relative points of economic cycles in countries we invest in, broad asset class valuations, market consensus changes, geopolitical risks and economic outlook(s).</p>	<p>FundSource notes that the Managers primary driver of performance is its security selection; identifying sustainable companies at attractive prices. The Manager attributes 30% to the industry factors, 30% to governance factors and 40% to valuation factors. Notably governance factors take in to consideration Environment, Social and Governance (ESG) policies, which is gaining critical scale globally. This does not imply that the companies it invests in are signatories to the UNPRI, or the fund is considered an ESG fund. FundSource believes the process underpins all the Manager's funds and is viewed positively.</p> <p>Importantly, company factors are not the sole driver behind security selection, with the Manager considering current economic conditions in determining the funds asset allocation to sector. FundSource highlights that the Fund is a concentrated fund, however greater diversification is provided by the use of ETF's and TRS's. There is still potential that this may lead to significant sector overweight or underweight positions.</p>
Why does the Manager believe you should give them your money rather than to someone else or to an inexpensive index fund?	<p>QuayStreet's underlying investment philosophy is that an actively managed and concentrated selection of high quality investments can provide better returns than market benchmarks. We maintain market inefficiencies exist which from time to time offer attractive investment opportunities. These inefficiencies are often caused by factors such as short term momentum, changes in investor behavior and general market dynamics and over reliance on consensus expectations.</p> <p>Financial markets can experience extended or extreme periods of negative returns and QuayStreet as an active manager has the resources and ability to implement capital protection strategies or reduce overall market exposure. While</p>	<p>The manager is providing investors with an opportunity to gain exposure to individual listed international names combined with low cost index exposure to major regions. The mix between the two varies and is determined by the availability of individual companies that fit with QuayStreet's investment criteria. Since Ring assumed management, the Fund has held the index part of the strategy higher at 78-85% reflecting the lack of individual name opportunities.</p> <p>Of the 152 funds in the FE Analytics NZMI Global Equity sector, this is one of 49 funds that are in a PIE, NZD unit price structure, or NZX listed ETFs. FundSource highlights some funds in this FE Analytics sector maybe have different market</p>

	<p>being a boutique manager QuayStreet is unique in that it manages its investments across a wide array of asset classes and regions. This gives QuayStreet the ability to attain exposure to securities which are class leaders in specific investment thematics where a suitable Australasian proxy may not exist and identify risks or trends which have not been understood or fully priced in by the local market and its participants.</p>	<p>capitalisation, regional and country biases to this QuayStreet Fund. This is a very comprehensively represented sector, with New Zealand investors having significant choice between local, Australian, and global funds management operations.</p> <p>Investors should expect the fund to be fully invested, with any cash allocation a result of the Managers inability to identify sustainable companies at attractive prices, themes via ETFs and TRSs, or overall market valuations deemed excessive. Alternatively, the Manager can use its cash allocation to provide some protection against extreme downside movements. Cash can range from 0-80%, with the Manager expecting cash to typically be less than 10%. Cash allocations higher than 10% reflect the number of TRS positions in the portfolio. With an inception date of September 2009, the Funds beta has been in line with peer funds, and volatility has been lower than peer FE Analytics NZMI Global Equity sector funds. The performance history of the Fund is available on the Manager's website.</p> <p>The Disclose website outlines the Funds' performance since inception, on a net of fees and tax basis. FundSource notes that the reference performance benchmark, on the Disclose website, is gross of fees and taxes.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>The Investment Team spends a significant amount of time analysing individual securities from a qualitative and quantitative perspective and how these securities sit within the portfolio from an investment return objective and total risk context. Therefore, purchasing or selling securities is based on a multitude of factors. Some of the primary ones we consider are as follows:</p> <ul style="list-style-type: none"> - Valuation (current price vs intrinsic value, sustainability of earnings and growth, market expectations etc.) - Quality of business (competitiveness, bargaining power, threats etc.) - Fundamental changes (management, deteriorating operations, inefficient allocation of capital) - Risks (liquidity, tracking error, specific security risk, currency, market risk, asset class risk etc.) 	<p>All companies, ETFs and TRSs invested in have traversed the Manager's process, including a rigorous peer review process. The Manager's qualitative process is implemented after initial quantitative filtering has taken place. The Manager does not have any specific guidelines used to underpin its quantitative filtering, which may lead to each analyst using their own process to narrow down the universe, prior to formal qualitative reviews being undertaken. The Manager does not have a target number of companies or ETFs it completes qualitative research on for this Fund.</p> <p>FundSource notes that the Manager's approach is less structured than most peer International Equity funds. FundSource highlights that the Fund is benchmark aware, which should mitigate significant deviation and excess risk in the Fund.</p>
<p>Has the CIO/ PM personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>The majority of the QuayStreet Investment Team have a significant proportion of their individual investments allocated across a wide range of QuayStreet Funds. The Investment Team all pay the same fee as other unit holders and there are no financial incentives or discounts provided to any staff to invest in QuayStreet Funds.</p>	<p>FundSource believes that 'eating your own pudding' should be an aspect potential investors consider when deciding to invest in any financial product.</p> <p>Investing in funds alongside investors and at the same fees, aligns the interests of investment personnel with those of the investors.</p> <p>FundSource acknowledges that, due to the number of funds and inter-funding of</p>

		diversified funds in to sector funds, it is unlikely the investment team invest in all of QuayStreet's funds.
How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?	<p>The Fund has the following asset class targets and ranges:</p> <p>Australasian Equity - Target: 0% Min-Max Range: 0% - 50%</p> <p>International Equity - Target: 100% Min-Max Range: 0% - 100%</p> <p>Listed Property - Target: 0% Min-Max Range: 0% - 50%</p> <p>Unlisted Property - Target: 0% Min-Max Range: 0% - 0%</p> <p>NZ Fixed Interest - Target: 0% Min-Max Range: 0% - 0%</p> <p>International Fixed Interest - Target: 0% Min-Max Range: 0% - 0%</p> <p>Cash - Target: 0% Min-Max Range: 0% - 80%</p> <p>Growth Assets - Target: 100% Min-Max Range: 20% - 100%</p> <p>Defensive Assets - Target: 0% Min-Max Range: 0% - 80%</p>	<p>FundSource highlights the Manager has few specified constraints, producing what could be perceived as being a very flexible mandate. Investors are relying on the benchmark aware nature of the Fund to prevent unexplainable risks being introduced. FundSource considers the Manager's scope for this fund to be focused and being benchmark aware is not likely to introduce significant risks.</p> <p>FundSource notes the Fund has a very flexible set of ranges across several equity sectors that it can invest in, however this is expected to be dominated by global companies, directly or via ETFs and TRSs. While the Manager is unlikely to exploit the ranges available, it does leave a gate open for the manager to deviate materially from the Fund's benchmark.</p> <p>FundSource notes the Fund's hedging is actively managed and is therefore based on the Manager's views of the NZD versus AUD, USD, GBP, EUR and JPY.</p>
On what basis does the Manager believe the fees they charge are justified?	<p>The International Equity Fund fee is 1.27% p.a. (incl. GST) and there are no performance fees attached. This is a total Fund fee which includes full active investment management, custody, trustee and registry fees.</p>	<p>FundSource believes the Manager is transparent from a fees perspective, noting the administration and underlying manager fees are combined and disclosed in the Product Disclosure Statement (PDS) available here, and via the Disclose website.</p> <p>The Disclose website shows the Fund's manager basic fee is 1.15%. Compared to the FE Analytics NZMI Global Equities sector peer funds, this Fund's manager basic fee below the average peer fee of funds in the FE Analytics NZMI Global Equity sector.</p> <p>FundSource notes, investors that invest through third party distributors may be charged discretionary switching fees of up to 1% and should seek full fee disclosure from their advisers before deciding to invest. Investors that invest directly with QuayStreet are not charged any entry or switching fees.</p>
How would you describe the quality of your organisational and investment governance processes?	<p>QuayStreet Asset Management is 100% owned by Craigs Investment Partners (CIP), New Zealand's largest financial advisory network with more than \$12b of funds under management. QuayStreet operates and makes investment decisions independently but utilises CIP's extensive compliance, legal, accounting, marketing and operational resources. This ensures there is external oversight from a compliance, regulatory and continuing business perspective. The QuayStreet Board consists of four directors who are</p>	<p>As a wholly owned subsidiary of Craigs Investment Partners (CIP), the Directors of QuayStreet hold a mix of executive and non-executive positions at CIP. None of the investment team hold director roles at either QuayStreet or CIP, providing distinct separation of duties from business operations and investment management, and reflects the structure typically adopted by larger institutions.</p> <p>FundSource views the outsourcing of non-investment functions to CIP and external</p>

	<p>also directors of a number of subsidiary and associate companies of CIP. The Fund's key service providers are separate commercial entities, custodian (Citigroup), Trustee (New Zealand Guardian Trust) and Registry (MMC).</p>	<p>service providers favourably. Overall this provides a solid framework for strong governance and removes administration function from the investment team. FundSource highlights that the Funds administrator and custodian functions are considered to be material relationships and the Manager should review these key functions annually at a minimum.</p> <p>FundSource would prefer to see the Manager implement a formal investment committee structure, including non-executive members, to assist in the oversight of investment frameworks and asset allocation policies. This is based on the higher number of funds, for the size of the investment team. Further to this, the use of a dedicated trader would be seen as industry best practice, separating the investment decision from the buying and selling of securities.</p>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>The Investment Team is strongly aligned to generate strong returns for its unit holders rather than primarily focusing on growing funds under management for the business as a whole. The team together has significant investments and savings across a wide range of QuayStreet funds. One of the primary determinants of profit share for a member of the Investment Team is the Fund's respective performance against its benchmark and comparable peers on a risk adjusted basis.</p>	<p>FundSource observes that to preserve capital and generate a long-term positive return for investors, the Manager must remain operational. The Manager has significant FUM and the potential to grow that significantly through an aligned advice service. FundSource notes that the Manager has not relied on institutional investment to underpin its range of funds.</p> <p>The Manager has not undergone significant structural change of its investment team since 2014, which is viewed positively. However, FundSource notes that additional resources would allow the existing invest team to focus on specific products as opposed to being spread across a large product suite.</p> <p>FundSource believes that the Manager is aligned to investor experiences, by way of investment, and to a lesser degree by the variable component of compensation. FundSource believes that the investment team can acquire equity in CIP.</p>

Conclusion and Rating

The Fund provides an investor with exposure to a benchmark aware portfolio of international equities that exhibit sustainable business models that offers diversification away from New Zealand and the NZD. Despite being benchmark aware, FundSource highlights that the Manager can incorporate significant regional, country, sector and company positions in the portfolio. Cash has a higher than typical range, which is due to the use of total return swaps. While the Manager is afforded a reasonable range of flexibility, FundSource does not expect the Manager will utilise the full ranges available to it, unless extenuating circumstances prevail.

FundSource notes that the Fund is the highest funds under management in the Managers product suite, however capacity is not considered an issue. The Managers total FUM across all of its retail and KiwiSaver funds, including the inter-funding of diversified funds into its sector funds, reduces the impact of low FUM in this Fund.

The investment team, in its current guise, has a relatively short track record, but FundSource notes that the Manager was born out of Craigs IP internal investment capabilities in 2014. Several investment team members have worked together at a previous employer, reflecting the team's tenacity in remaining together, despite a change of employer. The team have managed a portfolio of Australian equities historically.

FundSource's conviction in the Manager is underpinned by the repeatable nature of the investment process, which is applied across the Managers product suite. FundSource notes that as the universe of investments increases the team's resourcing risk increases.

FundSource believes the number of funds managed, versus the team size is higher than typically seen in the New Zealand market and FUM has grown. The Manager has recently made a new appointment after a careful and selective recruitment process with a focus on investment expertise and cultural fit. The Manager continues to look at growing the team as appropriate, opting for quality over quantity and alignment with the firm's long term growth ambitions.

FundSource notes that the manager basic fee is below the FE Analytics NZMI Global Equity sector peer funds.

FundSource recommends that investors carefully consider if the Manager's benchmark aware, and ETF biased approach to managing international equities, 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%	3.50 / 5
Investment Philosophy & Process	20%	3.60 / 5
People	25%	3.67 / 5
Portfolio Construction & Implementation	15%	3.33 / 5
Risk Management	15%	3.40 / 5
Investment Fees	10%	3.57 / 5
Overall Average Score.		3.53 / 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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Warning: Past performance is not a reliable indicator of future performance. Any information, opinions, views or recommendations in this report are for general information purposes only. To the extent that any such information, opinions, views and recommendations may constitute advice, they do not take into account any person's particular financial situation or goals and therefore do not constitute personalised financial advice under the Financial Advisers Act 2008, nor do they constitute advice of a legal, tax, accounting or other nature to any person. This report should not be relied upon as a substitute for advice from your authorised financial adviser.

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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.



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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