



# Qualitative Fund Research

Harbour Income Fund

February 2019

## About the Manager

Harbour Asset Management Limited (Harbour, the Manager) formed in December 2009 and commenced operations on January 2010. Harbour is principally owned by First NZ Capital Group Ltd (FNZ Capital), at 76.3%, and the balance being owned by Harbour employees, further details are available [here](#). Harbour states it is a well-resourced New Zealand based investment manager with extensive professional investment experience managing funds, further details of the Manager's core views are available [here](#).

Harbour has a group wide investment philosophy, based around consistency, processes, and people which can be viewed [here](#). Harbour operates a [governance framework](#) that is overseen by an experienced Board which includes three independent directors. Harbour provides full transparency and independence around the investing and management of clients' money. FundSource views corporate citizenship and governance frameworks as extremely important foundations from which a manager starts to engage with the client experiences.

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

## 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 Harbour Income Fund ("the Fund") is a diversified fund, with holdings across different asset classes, has relatively broad asset allocation ranges, and is reasonably unconstrained from an asset allocation perspective as well. FundSource believes the Fund is suitable as a core portfolio holding for investors seeking to enhance income generation in their portfolio.

The Fund is subject to fixed interest and equity market risk and movements (both positive and negative) in both the prices of fixed interest securities and share prices of the underlying securities in the portfolio. Accordingly, investors

Harbour manages nine retail funds, as at 31 December 2018, including:

- Harbour Australasian Equity Fund
- [Harbour Income Fund](#)
- Harbour Australasian Equity Income Fund
- Harbour Australasian Equity Focus Fund
- Harbour New Zealand Equity Advanced Beta Fund
- Harbour NZ Core Fixed Interest Fund
- Harbour Corporate Bond Fund
- Harbour T. Rowe Price Global Equity Growth Fund
- Harbour Real Estate Investment Fund

The funds above are managed by a team of 12 in total, of which eight manage the equity funds. The equity team comprises four Portfolio Managers, who have analyst responsibilities and are well supported by four dedicated analysts. The operations team consists of three people, and in some cases, shares resources with majority shareholder FNZ Capital. Individual bios on the team at Harbour can be found [here](#).

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. FundSource believes an investor should have a minimum investment time horizon greater than three years, preferably longer.

The Fund has the flexibility to hold material positions ranging from 20% - 90% in New Zealand Fixed Interest, 0%-40% Australasian Equities, and 5%-40% in cash. The Fund's asset allocation decisions can have a material impact on performance, as well as security selection.

The Fund is a Portfolio Investment Entity (PIE). The Fund intends to 5% per annum distributions, paid monthly.

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>Harbour Asset Management currently manages over \$4.4 billion in equities and fixed interest on behalf of institutional and retail clients.</p> <p>As at 31 December 2018, the Harbour Income Fund had \$83.7 million in total funds under management. The table below highlights the retail funds under management (FUM).</p> <p><i>As at 31 December 2018:</i></p> <table border="0"> <tr> <td>Australasian Equity Fund:</td> <td style="text-align: right;">\$ 238.0m</td> </tr> <tr> <td>Income Fund:</td> <td style="text-align: right;">\$ 83.7m</td> </tr> <tr> <td>Australasian Equity Income:</td> <td style="text-align: right;">\$ 35.1m</td> </tr> <tr> <td>Australasian Equity Focus Fund:</td> <td style="text-align: right;">\$ 18.7m</td> </tr> <tr> <td>NZ Equity Advanced Beta Fund:</td> <td style="text-align: right;">\$ 58.5m</td> </tr> <tr> <td>Core Fixed Interest Fund</td> <td style="text-align: right;">\$ 159.2m</td> </tr> <tr> <td>Corporate Bond Fund</td> <td style="text-align: right;">\$ 376.9m</td> </tr> <tr> <td>T.Rowe Price Global Equity Growth Fund:</td> <td style="text-align: right;">\$ 50.9m</td> </tr> <tr> <td>Real Estate Investment Fund:</td> <td style="text-align: right;">\$ 4.8m</td> </tr> <tr> <td><b>Manager Total Retail FUM:</b></td> <td style="text-align: right;"><b>\$1,125.9m</b></td> </tr> </table>	Australasian Equity Fund:	\$ 238.0m	Income Fund:	\$ 83.7m	Australasian Equity Income:	\$ 35.1m	Australasian Equity Focus Fund:	\$ 18.7m	NZ Equity Advanced Beta Fund:	\$ 58.5m	Core Fixed Interest Fund	\$ 159.2m	Corporate Bond Fund	\$ 376.9m	T.Rowe Price Global Equity Growth Fund:	\$ 50.9m	Real Estate Investment Fund:	\$ 4.8m	<b>Manager Total Retail FUM:</b>	<b>\$1,125.9m</b>	<p>The business has significant funds under management across its fund suite which spans across equities and fixed interest asset classes. FundSource notes that some of the Harbour Australasian equity retail funds invest in wholesale funds.</p> <p>The Harbour Income Fund has been available since 28 October 2015. The Fund consists of retail and wholesale investors, of which ~86% of the funds under management (FUM) is wholesale and ~14% is retail investors.</p> <p>The Fund provides investors with Harbour's best research ideas, across fixed income, real estate, and equities, albeit biased to fixed income securities.</p>
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<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>Mark Brown (8 years at Harbour) is the Portfolio Manager for the Harbour Income Fund. He has overall responsibility for asset allocation and risk positioning. Simon Pannett (5 years at Harbour) is responsible for credit analysis of investment grade and high yield credit. Equity selection is managed by members of the equity team. Craig Stent (9 years) manages the equity income securities and Shane Solly (6 years) manages property and growth equity selection. Susanna Lee (6 years) provides FX valuation analysis. Previously, the former Head of Fixed Interest, Christian Hawkesby, also contributed to the investment process. He has recently departed Harbour to take up a position as Assistant Governor at the Reserve Bank of New Zealand.</p>	<p>The Portfolio Manager (PM) Brown has a very solid 28 years industry experience and has eight years tenure with the Manager. Brown has been responsible for the Fund since June 2017.</p> <p>While Brown carries accountability for the Fund, the Fund leverages the experience of Harbour's equity, foreign exchange, manager selection. This is complimented with macro, rates, and asset allocation inputs. This Fund draws broadly from the Harbour investment team. The tenure of the Fund's investment team is strong, with Andrew Bascand, Craig Stent, Shane Solly, Susanna Lee, and Simon Pannett all providing inputs.</p> <p>The Manager has had a recent departure with Christian Hawkesby leaving in February 2019. Hawkesby held the role of Head of Fixed Income since commencing with the Manager in 2011. As a result of this change, Brown has assumed the responsibilities of Head of Fixed income immediately. George Henderson, who joined Harbour in June 2018, assumes some Portfolio Management responsibilities within the Fixed interest team for Harbour's fixed income portfolios. Henderson has 12 years industry experience, 11 years of which was at Royal London Asset Management (RLAM) in London, including nine years as a portfolio manager for a range of global fixed interest funds with a similar investment philosophy and process as Harbour. While Hawkesby was not directly responsible for this Fund, he is considered a key person in the Fixed income team. Harbour retains significant skills, but nonetheless this departure is viewed as being material in nature.</p> <p>Since commencing operations in 2010, the Manager has added resources, building out the team as required. The continual</p>																				

		<p>team development has seen new analyst additions in 2016, 2017 and recently in 2018. FundSource notes that the Manager has one of the larger investment teams, and pleasingly continues to invest in the investment teams, and importantly the business. FundSource commends the Manager for looking beyond today, and investing for the future, including that of investors.</p>
<p>What objective is the Manager trying to achieve?</p>	<p>The objective is to exceed the Official Cash Rate (OCR) plus 3.5% pa over rolling three-year periods.</p> <p>The Harbour Income Fund has been designed for investors seeking a stable income higher than bank deposit rates over time. The Fund intends to distribute 5% p.a. paid in monthly instalments.</p>	<p>The Fund provides a clear outperformance expectation, and the duration that should investors should expect it occur over. Importantly the Fund also provides a known distribution of 5% per annum. FundSource notes the 5% distribution rate is not guaranteed and can be changed by the Manager at their discretion. More so than most managed funds, this does provide some clear guidance on the expected distributions paid annually. FundSource is only aware of one other fund manager, other than Harbour, that offers a forecast like this on a managed fund.</p> <p>The Fund's performance history while relatively short, continues to develop, given the Fund has a little over a three-year track record. Compared to the average of 53 peer funds in the FE Analytics NZMI Fixed Income Global, the Fund has performed above peer average. FundSource notes the asset allocation is different to most sector peers as the Fund can invest in dividend paying Australasian equities.</p>
<p>What does the Manager invest your money into?</p>	<p>The Fund will invest in a range of fixed income securities, loans and equity securities that are compatible with generating a favourable level of income through different economic environments. Returns will be predominantly driven by the mix of New Zealand fixed interest securities and dividend-paying Australasian equities. To enhance expected returns and manage risk, the Fund will be actively managed drawing on Harbour research resources.</p>	<p>The Fund is expected to be dominated by New Zealand fixed interest, with a material allocation to Australasian equities.</p> <p>This Fund draws from resources across the Harbour investment team, rather than any one asset class. This includes bringing together fixed interest and equities teams and processes. The Manager has determined the majority of expected return will come from exposure to fixed income and equity markets, while active management and security selection are expected to contribute significantly less to the Fund's overall performance. The Manager extends this analysis in to decomposing the expected yield of the Fund. Notably both equity income and corporate bond yields are expected to be significant contributors to income generation, which ultimately supports the forecast 5% pa distribution.</p> <p>The Fund is suitable for investors who are seeking income. Investors should be aware the Fund performance will be characterised by exposure predominantly New Zealand fixed interest and Australasian equities.</p> <p>The Manager actively manages currency exposure to the Australian dollar. Hedging</p>

		is implemented via forwards and currency swaps.
What are the inherent risks imbedded in the Fund?	The primary risk relates to the performance of the investments made in equity and fixed interest securities. Equity prices are subject to the financial performance of the company and the economic and sectoral environment in which they operate. Fixed Interest securities are exposed to the financial performance of the Issuer, as well as the changing level of market interest rates. The value of derivative contracts is driven by the performance of the underlying risks of those contracts, be they equity, interest rate or currency exposures.	<p>The Manager is aware of the broad range of risks, as identified in the <a href="#">Product Disclosure Statement (PDS)</a>, and is mindful of them when constructing and managing the portfolio.</p> <p>FundSource believes the allocation between fixed income and equities, and the types of securities used in each asset class (e.g. domestic or international, and government versus corporate debt securities) is critical to the Fund achieving its forward projected income objective. As a result, the Manager allows the Portfolio Manager to use several levers, including broad asset allocation and security types and ranges, to assist in meeting the Fund's objective. FundSource believes the asset allocation has the potential to be dynamic and change quickly. In saying that, FundSource observes the Fund has been methodically and incrementally implemented asset allocation changes to date.</p>
Why does the Manager believe the future prices of the Fund's investments will vary?	Harbour's principal competitive advantage is the quality and depth of our resources. Harbour has one of the largest and most experienced domestic investment teams in New Zealand. Our portfolio managers are supported by a team of analysts who produce proprietary qualitative company research, quantitative analysis and macroeconomic insights.	<p>FundSource observes the Manager's process is one of the more methodical, well structured, and consistently implemented. The process builds from determining which income asset classes are likely to achieve the Fund's objective. The Manager then steps in to security selection, risk management and the final portfolio. FundSource believes determining the choice of income asset classes is a critical first step, which dictates security selection, risk management and what the final portfolio is invested in. The mix of fixed interest and equities is key to how the portfolio will react to market and security pricing changes.</p> <p>The Manager's process across all asset classes is underpinned by fundamental, bottom-up research. The Manager incorporates a mix of predominantly internal, with some external research. External sources include sell-side brokers, although the Manager relies heavily on in-house investment models.</p> <p>The Manager has developed a process that blends academic research and practical insights, to develop its edge. Short term fluctuations in price around the Manager's central thesis may not result in a change in the Manager's long-term view. This is likely to lead to short term dislocations in performance compared to the Fund's hybridised benchmark. FundSource notes the portfolio positions are typically longer-term holdings, regardless of the asset class.</p>
Why does the Manager believe you should give them your money rather than to someone else or to an inexpensive index fund?	Harbour's fundamental goal is to be most trusted in our field, which means we put our clients' interests at the centre of everything we do. Our sole focus is managing external client money. We also	The Fund's return to investors, available on the <a href="#">Manager's website</a> and the <a href="#">Disclose website</a> , highlights the Funds' performance compared to the Funds' hybrid market index, being 68% S&P/NZX

	<p>believe that a tailored and actively-managed fund is much better placed to deliver on the Fund's income-producing investment objectives. Several of the investment types described are not available in indexed form. Indeed the absence of index funds in parts of the market, especially Australasian high yield credit and loans enable pricing to be more favourable than would be seen if a significant price-insensitive buyer was operating. In addition, our investment approach of being willing to exit risk when we see an unfavourable environment is a feature that is not open to a passive investment approach.</p>	<p>A Grade Corporate Bond Total Return Index; 16% S&amp;P/ASX200 Industrials Index (100% hedged to NZ dollars); and 16% S&amp;P/NZX Portfolio Index, clearly showing the Fund's annual performance, compared to its hybrid benchmark.</p> <p>FundSource believes the Funds' performance is reflective of the equity and fixed interest teams success, combined with the ability to maintain an appropriate mix of fixed interest and equities to meet the Fund's stated income objective. This is achieved whilst ensuring capital value is maintained or achieved some growth.</p> <p>The Manager expresses their set of core values across their website. Harbour believes these factors differentiate them from peers, across their product suite. FundSource believes that in conjunction with a disciplined approach to investing, the Manager, presents a clear rationale as to why a potential investor should consider investing in this Fund.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>Our research-driven investment process, which is structured and disciplined, creates a consistent approach to investment decisions and execution of strategy. At a top-down level, macroeconomic, asset class and sector views are considered at Investment Strategy meetings. From there, security selection is made by the experts in each area and is made consistently across similarly-designed funds. For instance, if we analyse a new corporate bond issue and form a positive view, the security will be included in all eligible portfolios, subject to each portfolios' current strategy.</p>	<p>The Manager's fundamental bottom up process starts with focused quantitative filtering. FundSource notes that Harbour have included proprietary ESG factors in their investment processes since inception. Importantly it's not a new part of the process, but well established and well and truly embedded.</p> <p>The Manager is not a quantitative manager, as the analyst teams undertake significant and detailed qualitative reviews of securities, security types, and asset classes. This enables the Manager to understand the securities prior to investing in them. The qualitative input results in analysts scoring a series of factors, leading to a qualitative ranking.</p> <p>Brown takes some guidance around portfolio construction from the equity teams, but is ultimately responsible. Macro inputs for fixed interest and asset allocation have been co-ordinated by former Head of Fixed Interest, Christian Hawkesby. However, Hawkesby's very recent departure has resulted in some changes in roles for the broader fixed interest team, with Henderson now contributing to the macro inputs. FundSource notes Henderson commenced with the Manager in June 2018. FundSource notes while this is material, but the team remains relatively well resourced. Henderson may influence the macro input process and asset allocation over time. No immediate changes are expected. Harbour have also indicated an intent to add to the team, with a desire to include macro skills and responsibilities in the role.</p> <p>Both quantitative and qualitative scores become a key component of the monitoring process for equities. A deterioration of a securities score, or belief</p>

		that other security types better capture the asset class characteristics, will assist in the sell decision process. Deterioration of key security scores will trigger a review, which can lead to reducing the position size or exiting the company.
Has the CIO/ Portfolio Manager personally invested in the Fund? If so, paying the same fees as other investors?	Harbour staff invest in Harbour funds alongside our clients at normal fee rates.	<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.</p> <p>Effectively the PM is eating their own cooking, bringing strong investor alignment. FundSource believes the alignment is stronger when investment personnel pay the same fees as investors, which is the case for this Fund.</p>
How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?	<p>As an active manager, and thereby able to avoid exposures when we do not have a positive view of an asset class, we believe that we will use the full range of the Fund's allowable ranges when conviction is high. Equity and international fixed interest allocation ranges enable us to completely exit these asset classes. The allowable range for NZ fixed Income is 20% to 90% of the portfolio. For Australasian Equities the range is 0% to 40%. Other sectors, such as Cash, International Fixed Interest and International Equities have tighter ranges.</p> <p>Cash Allocation: 5% to 40%            Single Stock Limit: 0% to 15%*            Sector Limits: NA</p> <p><b>Fixed Interest Limits:</b>            Investment Grade: 20% to 90%            Non-investment Grade: 0% to 20%            Loans: 0% to 30%            International: ≤30%            Duration Years: -2 to 8yrs</p> <p><b>Equity Limits:</b>            Australasian Equity Income: 0% to 40%            Australasian Equity Focus: 0% to 15%            International Equity: 0% to 20%</p>	<p>The Portfolio Manager has relatively wide allocation limits. The methodical approach to risk management is reflective of the Manager's complete process to investing client money. The Portfolio Manager leverages the analyst team to identify conviction in companies, that might be suitable for the portfolio.</p> <p>Cash is a result of reduced opportunity, rather than a conscious asset allocation decision. Harbour may have up to 30% of the Net Asset Value of this Fund invested in a Harbour managed fund or funds managed by an external manager. These holdings will be managed in accordance with the overall investment guidelines of the Fund.</p> <p>The Fund's neutral foreign currency positioning is 100% hedged to NZD. The allowable range of currency exposure to the Australian dollar for the overall Fund is +/- 10%. FundSource does not expect the Fund will include a significant currency views, rather hedging will be used to ensure income and or distributions received are not meaningfully impacted by movement in currencies.</p> <p>The Fund can use derivatives, and the Manager is mindful of any unintended consequences this may introduce. Accordingly, the Fund's effective exposure of equity and corporate credit must not result in the Fund being levered with regards to equity and credit risk. The effective fixed interest exposure of the Fund will not be considered to be leveraged if the portfolio duration is within the permitted range for the Fund. FundSource notes the ranges of duration are quite wide and would not expect the Fund to introduce leverage to the fixed interest component.</p>
On what basis does the Manager believe the fees they charge are justified?	Harbour's fees are transparent. There are no buy/sell spreads or entry/exit fees. The Income Fund has a total fee (excluding GST) of 0.63% p.a. including investment management, Supervisor, legal and audit fees as well as the costs of unit pricing,	The Funds' basic fee is well below the FE Analytics NZMI Fixed interest Global sector peer average. As this is an actively managed Fund the Manager's ability to operate the Fund closer to passive fee levels is a strong positive.

	<p>investment accounting and custody. In an environment of declining fee levels, the Income Fund fee is at the low end of comparable fees in the New Zealand market and there is no performance fee. The fees may be greater than passive indexed funds, but the Income Fund is designed to deliver a particular return profile that we do not think can be achieved satisfactorily with a passive index structure.</p>	<p>The Manager states the Fund invests predominantly in New Zealand investment grade fixed interest securities and Australasian equities which pay a sustainable dividend yield. FundSource notes interestingly this Fund sits in the FE Analytics Fixed Interest Global sector.</p>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>Harbour has earned a reputation for following consistent and disciplined investment processes to deliver strong performance for clients. We integrate environmental, social and governance (ESG) considerations into our investment processes and have been signatories to the UN Principles of Responsible Investment (PRI) since August 2010. We are very active in our engagement with companies. We engage PWC to test the firm's operational control processes under the GS007 framework. This assesses tasks such as the handling of client funds, investment management processes, trade execution, segregation of duties etc. This is an external and independent assessment of our processes.</p> <p>The Board of Harbour appointed a third independent director, Linda Jenkinson in 2018. One of the independent directors is Graeme Wong who chairs the Board and the other is Wayne Stechman who chairs the Audit Committee. The entire Board is included in approving remuneration. The Head of Compliance, Debbie Bourne, reports directly to the Board and Audit Committee. The other Board members are Bill Trotter and Richard Young representing FNZC and Andrew Bascand, Managing Director of Harbour.</p> <p>Other than the Managing Director, the Board has no involvement in investment decisions relating to the Harbour Funds and there is no Investment sub-Committee of the Board. Equity portfolio managers meet at least monthly (and more often as required) to discuss the quantitative ratings of all stocks in our investable universe and to review the qualitative assessments by each sector analyst. The Fixed Income team meets monthly for full strategy reviews, with weekly meetings to monitor and update strategy and tactics.</p>	<p>The Manager has a strong governance structure which starts with the composition and expansion of the Board and leadership of key Board Committees. In addition to the out-sourced functions, there are sufficient internal personnel in operational roles, to ensure that the investment team members can concentrate on managing the portfolios.</p> <p>The use of external directors for the Harbour Board is considered to be in line with industry best practice. FundSource notes the use of independent members extends to Board delegated committees, and investment committees. The use of external non-executive directors is strong, this excludes those representing the major shareholder, First NZ Capital.</p> <p>Harbour has a formal investment committee, which meets on a monthly basis, and is chaired by Chris Di Leva, who is Harbour's Multi Asset Specialist. FundSource believes the structured investment committee process formalises a process and provides oversight to the investment decisions.</p> <p>FundSource considers the Head of Compliance reporting directly to the Board and Audit Committee as being in line with global best practice, which is not always the case in New Zealand.</p> <p>The use of environment, social and governance (ESG) in the research process, since the Manager's inception, is viewed positively. Investors should be aware that ESG and the United Nations Principles of Responsible Investing (UNPRI) are relatively loose and is not seen as a negative screen for filtering companies. The Manager's internally developed ESG process is considered to be very robust and can be applied to a company, regardless of its domicile.</p>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>Harbour is owned 76% by FNZC and 24% by Harbour employees. A long-term incentive scheme sees annual awards of further equity ownership for Harbour staff and provides vesting arrangements for investment in Harbour funds alongside our clients. Harbour staff do not have any pecuniary interest or involvement in FNZC.</p>	<p>By being partially owned by its employees and directors, there is strong buy-in from the team to work hard for the firm's long-term success - this is good news for investors. The Manager's continual development of and commitment to its staff is viewed as market leading.</p> <p>There is alignment between the bonus component of staff remuneration and the performance of the funds/portfolios. FundSource believes the vesting of short-</p>



		term incentives, cash bonuses, in the Manager's suite of funds as market leading from a New Zealand perspective. This enhances the alignment to the interests of investors.
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## Conclusion and Rating

The Fund provides an investor with exposure to a portfolio that is likely to be dominated by investment in to New Zealand fixed interest securities. The Fund gains its equity exposure by potentially investing in up to three Harbour equity funds, being the Australasian Equity Income Fund, Australasian Equity Focus Fund, and Harbour T. Rowe Price Global Equity Growth Fund. Cash holdings are reflective of the fixed interest and equity opportunity, rather than an active asset location decision. The Manager has the ability to make significant asset allocation changes quickly. However, FundSource believes the Fund's asset allocation changes will be moderate and well considered over time.

The Fund offers investors a projected income expectation, which is subject to change at the Manager's discretion. FundSource notes investors should consider the 5% distribution paid monthly as being indicative, not guaranteed. However, the Fund is suited to investors who are seeking a degree of certainty in of income, from monthly distributions.

FundSource's conviction in the Manager is underpinned by its commitment to strong governance principles, and continued growth of non-executive directors, the strength of its

investment team, since inception. Very recent changes which affects the Fixed Interest team, with Christian Hawkesby departing the Manager in February 2019. This has a material impact on this Fund, despite Mark Brown being ultimately responsible. Hawkesby provided macro inputs influencing asset allocation decisions. FundSource believes the Manager will recruit for a new resource, and is viewed necessary. Cultural fit and desired skill sets are very important considerations in the recruitment process.

The Manager has a highly methodical and repeatable process. FundSource believes the Manager's proprietary ESG process, embedded since inception, to be market leading.

The Manager's basic fee is well below the peer average in the FE Analytics NZMI Fixed Interest Global sector.

FundSource recommends that investors carefully consider that the Managers projected distribution yield, bias to fixed income, but potentially flexible asset allocation, 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%	4.00 / 5
Investment Philosophy & Process	20%	4.00 / 5
People	25%	2.67 / 5
Portfolio Construction & Implementation	15%	3.67 / 5
Risk Management	15%	3.80 / 5
Investment Fees	10%	4.14 / 5
<b>Overall Average Score:</b>		<b>3.60 / 5</b>

## 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 provides high quality information, data and tools to support business decision making. NZX builds and operates capital, risk and commodity markets, and the infrastructure required to support them.

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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