



**FundSource**



# **Qualitative Fund Research**

AMP Capital Investments (NZ) Income Generator Fund

October 2017

## About the Manager

The AMP group is an Australian Stock Exchange (ASX) listed company (ASX: AMP). AMP Capital Investors (New Zealand) Limited (the Manager) is a majority owned AMP entity, and shares a history that dates back to 1849. AMP Capital is a specialist investment manager in New Zealand. The Manager has been able to leverage its home strength in Australia and New Zealand to grow internationally, and today it has operations in Dubai, China, Hong Kong, India, Ireland, Japan, Luxembourg, the United Kingdom and the United States. The Manager invests over AUD\$178 billion in funds under management on their behalf, across a range of single sector and diversified funds. The Manager has provided a brief profile available [here](#).

AMP Capital believes being a trusted partner, delivering outstanding investment opportunities and understanding clients' needs are important to developing contemporary investment solutions. AMP Capital clearly points out its views on responsible investing, available [here](#), which incorporates environment, social and governance

(ESG) aspects into its investment philosophy and process.

AMP Capital offers 25 investment funds in New Zealand, one of the broadest ranges available in the market. AMP Capital does not manage all funds internally, and can employ the services of other fund managers, where an internal capability is not available.

AMP Capital has focused the FundSource research on their [goals-based investment solutions](#):

- AMP Capital Global Multi-Asset Fund
- [AMP Capital Income Generator Fund](#)

The investment team, in New Zealand consists of two, who leverage off AMP Capital's Sydney based investment team. Individual bios are available for the Manager's New Zealand management team [here](#), including the Head of Investment Strategy. The Manager does not provide bios for the full investment team.

## 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 AMP Capital Income Generator Fund ("the Fund") provides investors with a diversified mix of growth and defensive assets, with a focus on reliable income generation. The Fund uses a multi fund approach, which includes a mix of internal and external fund managers. The Fund's asset allocation is biased to domestic defensive assets and international fixed income and international equities. The exposure to defensive assets will typically be around 60% (with a range of 45-75%). As such the Fund's allocation is consistent with typical balanced funds, and sits within a moderate-balanced investor risk profile.

The Manager expects returns to be driven from a variety of sources, with the defensive assets (cash and bonds) providing a steady source of returns. Growth assets will generally be income biased, with some growth. The Manager sets a strategic asset allocation (SAA), and selects underlying funds, to generate a target rate of income. The Manager

looks to set in advance the rate of the payments being made for the year ahead, rather than determining it at the end of a performance period. The strategic asset allocation (SAA) is reflective of a moderate-balanced risk profile, being 60% defensive assets and 40% growth assets. The Fund is suitable for investors with a minimum investment time horizon of five years.

The Managers' skill will, in part, be reflected in their ability to manage the allocation between equities, infrastructure and real estate, fixed income and cash or cash equivalents, and the underlying manager and fund selection.

The Fund is a Portfolio Investment Entity (PIE) structure, and pays a monthly distribution. The annual rate of income paid is set in advance, and can be revised half-yearly. An update on the rate being paid monthly is provided six months into each annual investment period.

Question	What the Manager says	What FundSource think						
What are the Manager's assets under management - in total and in this Fund?	<p>AMP Capital is one of New Zealand's largest investment managers and currently has over \$21 billion funds under management. It manages funds on behalf of around 100 institutional clients, and provides investment management services to a range of New Zealand entities, including superannuation schemes, corporate KiwiSaver providers, charities, iwi, life and general insurers, councils and incorporated societies. As at 30 September 2017 there was <b>\$319.3 million</b> invested in AMP Capital's goals-based strategies.</p> <p><b>As at 30 September 2017:</b></p> <table> <tr> <td>Income Generator Fund</td> <td>\$116.3m</td> </tr> <tr> <td>Global Multi Asset Fund</td> <td>\$203.0m</td> </tr> <tr> <td><b>TOTAL:</b></td> <td><b>\$319.3m</b></td> </tr> </table>	Income Generator Fund	\$116.3m	Global Multi Asset Fund	\$203.0m	<b>TOTAL:</b>	<b>\$319.3m</b>	<p>The Manager currently offers two goals-based solutions in the New Zealand market place, while AMP Capital Australia offers six funds, in three broad categories. FundSource expects more funds to be added to the New Zealand goals-based menu, and link these funds to a corresponding bucket, or category.</p> <p>The Income Generator Fund was launched on 1 April 2014, being the second goals-based fund offered in the New Zealand market, following on from the Global Multi-Asset fund. FundSource highlights that the goals based funds have received strong support in the New Zealand market place, confirmed by the reasonable retail funds under management (FUM) growth.</p>
Income Generator Fund	\$116.3m							
Global Multi Asset Fund	\$203.0m							
<b>TOTAL:</b>	<b>\$319.3m</b>							
Who is accountable for managing the Fund, and how long has the investment team worked together?	<p>Greg Fleming is Head of Investment Strategy and is the portfolio manager for the Income Generator Fund in New Zealand. He joined AMP Capital in 2016, and has 20 years' experience in investment markets and an in-depth knowledge of asset allocation strategies. As Head of Investment Strategy, Greg has responsibility for strategic asset allocation and diversified portfolio management in New Zealand, and is also responsible for the dynamic asset allocation (DAA) process. He is part of the New Zealand multi-asset team which specialises in the construction and management of goals-based portfolio solutions.</p> <p>As portfolio manager, Greg also draws on the expertise of both the wider multi asset group and the resources of AMP Capital globally. New Zealand's key contact within the Multi-Asset Group in Australia is Senior Portfolio Manager, Matthew Hopkins. Matthew manages a variety of diversified portfolios for the clients of AMP Capital's Multi Asset Group, including flagship funds Income Generator and Multi-Asset Fund, utilising over 25 years' experience in portfolio management and research. While Income Generator in Australia is somewhat different in terms of composition and structure, Matthew acts as an advisor on the Australian investments held within New Zealand's Income Generator Fund.</p>	<p>The AMP Capital (NZ) investment team has undergone significant change leading up to the 2016 departures of the Head of Multi Asset Group, Peter Verhaart, and former Head of Investment Strategy, Keith Poore. Fleming commenced in the role of Head of Investment Strategy in September 2016. This ended a long period of restructuring of AMP Capital NZ across most asset classes.</p> <p>Fleming has held senior analyst roles in private wealth management at global banks. Further information on Fleming's historical roles and the importance of his role is available <a href="#">here</a>. Fleming is supported by Investment Research Manager, Daniel Mead. Mead has 18 years' industry experience; seven years has been with the Manager. Both Fleming and Mead are solid, methodical, and considered investors. These characteristics are positively aligned to this type of Fund.</p> <p>The relatively small New Zealand based team leverages the Australian based Multi Asset team, led by Hopkins. Hopkins' team provides support for the strategic asset allocation (SAA) and dynamic asset allocation (DAA) frameworks, as well as the advisory capacity for the underlying Australian funds, held within the Fund.</p> <p>Fleming has a strong industry background, and confidently talks to key decisions that have been incorporated since commencing with the Manager. FundSource believes that Mead, particularly for external New Zealand manager selection, and the Australian Multi Asset Group, provide the much needed support and stability, through a period of significant change at AMP Capital (NZ). FundSource would like to see the Manager provide more information on the investment teams in general, as this is limited to key executives on the website.</p>						

<p>What objective is the Manager trying to achieve?</p>	<p>The Income Generator Fund aims to provide a gross fixed monthly income in excess of bank deposit rates, along with a positive return on capital over the long-term. The investment objective is to maximise the amount of the monthly distribution payments by outperforming, over the medium term, the weighted average return of the market indices used to measure performance of the underlying funds/assets in which the Fund invests. In practice, maintaining a distribution rate in excess of the average 6-month New Zealand Term Deposit rate is also a guiding objective, though not a formal requirement.</p>	<p>The Manager incorporates this Fund into its suite of goals-based investment funds. The Manager contends that a goals-based approach changes how financial advice is provided, breaking from the traditional risk profile's theoretical, and complex approach. Goals-based solutions focus on the alignment with what an investor wants to achieve. Goals-based investing is not a new concept, and is linked with the funding of future liabilities, and constructing a portfolio to fund those future liabilities. Meeting short-term needs requires high levels of liquidity, and focuses on income rather than growth. Medium-term needs to incorporate a balanced mix of liquidity, growth and income. While longer term needs are typically biased to growth assets, attempting to protect the amount of money available. This Fund is aligned with funding an investor's short-term needs and goals.</p> <p>The Manager has produced a dedicated <a href="#">goals-based website</a> detailing the Manager views on goals-based investing and series of videos and other tools to assist investor education. In addition, the Manager has produced an investor information and education website dedicated to the <a href="#">Income Generator Fund</a>.</p>
<p>What does the Manager invest your money into?</p>	<p>The Fund is a multi-manager style fund that invests in a broad range of income producing assets, including fixed income, Australasian shares, inflation linked bonds, international shares, property securities, infrastructure securities and cash. The Manager believes the most effective way to add value while being rewarded for risk is through multi-manager investing with a focus on selecting asset classes with low correlations and underlying managers with complementary skill sets. The Manager believes in active management (where appropriate) within all asset classes and adopts a long-term, research based approach to investing.</p>	<p>The Fund invests into a range of underlying funds, across the major asset classes. The underlying manager mix is dominated by AMP Capital investment capabilities and funds, or mandates with a small number of external fund managers, such as New Zealand equities.</p> <p>The Manager employs a strategic asset allocation (SAA) based framework, which sets a benchmark asset allocation for each asset class. This is complemented by a dynamic asset allocation (DAA) framework. DAA is relatively flexible and is used to respond to market events and structural change.</p> <p>While the asset class range available to the Manager is broad, the Manager is not likely to fully utilise the full band width on a month by month basis. FundSource expects the Manager to make small deliberate incremental changes over time. However, there may be periods where the Fund may experience material DAA changes.</p> <p>The Fund is assessed as having a minimum investment horizon of at least three years. Over shorter periods, there is potential for movement in the Fund's value that may lead to a loss of capital.</p>
<p>What are the inherent risks imbedded in the Fund?</p>	<p>All investments carry risk. The Income Generator Fund may experience negative returns from time to time and there is no guarantee of capital preservation. Assets with a long-term objective may carry higher levels of short-term risk, particularly if not held for the minimum suggested</p>	<p>The Fund is impacted by four key risks, asset allocation, manager selection, underlying manager sector and security selection, and foreign currency exposure.</p> <p>To assist in managing risk the Manager leverages the domestic risk and operations</p>

	<p>investment timeframe. In addition, returns are not guaranteed – future returns may differ from past returns, the level of returns and the value of the investment may vary, and there may be the risk of loss of invested capital. The Fund will be affected by any risks associated with the securities in which it invests and other investments it makes. These include risks in relation to how those securities or other investments perform, how sustainable their earnings are, and other factors that affect value and performance, as well as risks associated with international investments and liquidity risks.</p>	<p>team, and the Australian AMP Capital investment, operations, risk and compliance teams. The investment team do not make decisions in isolation, with strong interaction with New Zealand and Australian investment committees. This ensures that decisions around asset allocation, manager selection and mandate controls for external managers are well thought through, prior to being acted on.</p> <p>Due to the income focus of the Fund, the Manager hedges all international investment exposures, listed infrastructure, listed property securities and corporate bonds. Investors should be aware that Australian dollar assets are not currently hedged. This introduces a small degree of currency risk, notable as this is an income fund, and the income may be adversely affected by AUD:NZD currency moves.</p>
<p>Why does the Manager believe the future prices of the Fund's investments will vary?</p>	<p>The assets of the Fund are market linked, and therefore are susceptible to general market fluctuations and individual security price fluctuations. The performance of the Fund can be influenced by many general factors impacting on markets in which it invests, including inflation, interest and growth rates, changes in government policy and tax laws, political events, changes in investor sentiment, performance of the underlying assets, and in the case of the global funds, currency fluctuation. The unit price of the Fund reflects the value of the underlying assets of the Fund and will change as the market value of the Fund's assets changes. Key factors that determine the unit price and income distributions include market fluctuations in the value of Fund investments and the income received on them, tax and fees.</p>	<p>The Manager combines underlying funds to generate an income return for investors. This creates exposure to the upside of global risk assets, predominantly shares that have a value and quality bias, with lower volatility and exposure to alternative and non-equity assets.</p> <p>The Manager sets the Fund's expected distribution expectation yearly in advance. While this could lead to the Fund having to increase risk to achieve the forecast objective, FundSource highlights the Manager has a half-yearly review. The Manager can revise up or down, or maintain the forecast income target.</p> <p>FundSource believes the asset allocation will be the primary driver of the Fund's performance and income. This will be based around the DAA decisions. This, combined with the choice of internal or external underlying funds and mandate restrictions on external underlying funds will also dictate how the Fund performs compared to market.</p> <p>Capital preservation and credit quality is central to how the investment team think about this Fund. This is in line with the Fund's exposure to defensive investments and focus on the dividend sustainability to investors, and providing a stable monthly income distribution.</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>AMP Capital's core expertise is managing assets and portfolios. It seeks added value from active management where this can be identified and they have achieved excellent levels of value add, after fees, for its clients. The multi-manager funds are actively managed, which means constantly assessing and implementing new opportunities that have the potential to improve the risk and return outcomes of clients' portfolios. These funds aim to provide diversification across asset classes, manager types and manager styles, with the aim of achieving growth with smoother returns by negotiating the</p>	<p>The Manager believes in active management, this is at the underlying fund level and the Fund level. FundSource highlights the underlying funds are dominated by domestic and Australian AMP Capital Funds. Importantly, FundSource notes the small New Zealand based team is supported by AMP Capital Australia, which is viewed favourably as the Fund benefits from an Australasian view to generating income, which feeds in to the asset allocation framework. Ultimately for this Fund Fleming is accountable, and maintains a small degree of discretion.</p>

	<p>ups and downs of the market. While AMP Capital generally recommend an active management approach, as used for the Income Generator Fund, they are also able to offer passive solutions should that be more suitable for a client's needs.</p>	<p>The Manager can offer a passive version of the fund, but interestingly does not blend active and passive investments, in the one fund. FundSource notes this is not at the retail level. FundSource is not aware of any retail investor material for the passive version is available for review.</p> <p>To date the Fund has met its projected income distribution and the forecast yield has not been revised down since inception. In an investment environment dominated by terms such as 'lower for longer' the Manager provides investors with some strong expectation guidance, not typically seen from fund managers. The Manager produces <a href="#">factsheets and distribution timetables</a> which clearly shows the fixed monthly distribution amount and when an investor can expect to receive their distribution from the Fund. Further performance data is available via the <a href="#">Disclose</a> website and <a href="#">FundSource</a>.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>The Manager believes that the diverse security and asset types offering income opportunities that it invests in possess different cyclical characteristics, and require active adjustment in response to changes in the economic, interest rate, or equity market outlook. Strategic and dynamic asset allocation capability ensures that the portfolio is managed to capture sustainable yield opportunities as they present themselves, e.g. when yield opportunities are abundant in growth income assets the portfolio will move to capture them, at the expense of its overall allocation to defensive income assets. In relation to the underlying funds, buy or sell decisions are made by the underlying managers in the Fund having regard to the investment guidelines for individual fund.</p> <p>Monitoring the activities of incumbent fund managers and reviewing their performance along with overall multi-manager portfolio performance is a critical component of AMP Capital's investment process. It provides important feedback and insights about the success of their investment strategies and often provides the catalyst for future modifications. They place great importance on managers remaining 'true to label' in their portfolio construction methods, attributes and performance. The decision to exit an underlying manager is generally taken if some change has occurred that weakens the original investment rationale, e.g. a change in personnel, deviation from stated philosophy or approach, or significant increase in FUM.</p>	<p>The Manager's key decisions, buy or sell, are based around the asset allocation and underlying fund selection. Small changes in the asset allocation will lead to buying and selling units in underlying funds to accommodate the asset allocation changes.</p> <p>Changes in the underlying fund line-up will also be triggered by buy sell decisions. FundSource highlights the process to change an underlying fund manager is difficult, due to the high use of AMP Capital's internal capability, from both New Zealand and Australia, regardless, managers are screened to ensure research efforts are focused on viable prospects. Investors should understand that external funds are managed to a mandate, set by AMP Capital (NZ), and may not fully reflect retail products offered by the mandate manager. Most of the Due to a high number of underlying funds are internal AMP Capital funds, with a small number of externally managed mandates, FundSource expects the number of underlying manager changes per year to be low.</p> <p>The Manager employs a structured and methodical approach to managing the asset allocation and underlying fund decisions. No decisions of note can be implemented by any one individual. All key decisions require investment committee approval, prior to being implemented.</p> <p>The Fund allows the use of derivatives, such as options, futures and credit default swaps. FundSource notes derivatives are used to primarily protect against risk and currency management, however, the Manager can use derivatives to enhance returns and implementation.</p>

<p>Has the CIO/ Portfolio Manager personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>AMP Capital has a Staff Investment Programme which is available to all AMP staff and their families within New Zealand. This gives staff the opportunity to invest in AMP Capital Investment Funds (including the Income Generator Fund) at wholesale rates and reduced minimum investment amounts. All staff need pre-approval to invest in or withdraw from AMP Capital Funds.</p>	<p>FundSource believes that managers 'eating their own pudding' should be an aspect a potential investor should consider, when deciding to invest in any financial product.</p> <p>Investing in a fund, alongside investors, aligns the interests of investment personnel with those of the investors. When investment personnel are significantly invested in a fund they are managing, and at the same fees, FundSource views this as a strong alignment.</p> <p>Given the risk profile of this Fund, FundSource highlights it may not align to an investment team members risk profile. FundSource prefers that investment personnel pay the same fees as other investors, to ensure the experience of both parties is symmetrical.</p>
<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>Risk management represents a crucial aspect of the investment process, and involves monitoring risk at both the portfolio and manager levels. In the first instance, the portfolio manager is responsible for managing the portfolio to ensure factor tilts are commensurate with risk tolerance and alpha targets. In addition, a risk management system is used to measure ex-post and ex-ante risk. This risk analysis provides valuable insight into whether the individual sector funds and the total portfolio are operating as expected, and whether there are any unintended risks. Risks such as the commonality of active positions across managers and other correlation factors are monitored in this way.</p> <p>Tracking error n/a          Cash: 0% to 20%          NZ Fixed Income 0% to 45%          International Fixed Income: 15% to 35%          Australasian Equities: 0% to 50%          International Infrastructure: 0% to 15%          Listed Property: 0% to 15%</p>	<p>The Manager's process affords Fleming some discretion, but is dominated by a governance and compliance framework that starts at with an investment committee and separate but internal compliance and risk management teams. The Manager views the Fund as being a benchmark unaware fund that targets an excess return greater than the six month bank deposit rate. The excess return target is in line with the Manager's positioning of the Fund as an alternative to term deposits.</p> <p>Research is fundamental to all investment decisions, and accordingly, can be impacted by asset allocation changes, both at the SAA and DAA level. FundSource believes the investment team has strong and relevant experience in investment markets and asset allocation strategies and is aware of the consequences of portfolio decisions. This includes working closely with the Australian multi-asset investment team to share research, knowledge and insights. Ultimately, economic and investment strategy decisions are made by the New Zealand based team.</p>
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>Active managers typically charge higher management fees for their expertise. The basic premise of active management is that pricing anomalies exist in the market and these can be exploited by investors. As markets are not always efficient, with the right research and methodology, a good manager can identify undervalued securities to invest in, thereby adding excess return over the performance benchmark. A good manager also needs to be flexible enough to adapt to the changing market environment without compromising its fundamental investment philosophy and/or the integrity of its investment process. The Fund has delivered on its objective of providing consistent monthly income, with the portfolio succeeding in providing a steady yield to investors since</p>	<p>FundSource notes there are 35 funds in the FE Analytics NZMI Diversified Defensive sector. The FE Analytics sector consists of conservative, stable, defensive and income funds, with eight funds, including this Fund, identified as being income focused funds. The Income Generator Fund fee is slightly below the average when compared to 35 peer funds. This is also the case when compared to the eight income focused funds.</p> <p>FundSource notes the Manager fees are disclosed in the <a href="#">Product Disclosure Statement</a> (PDS), which includes an indicative performance fee calculation. The <a href="#">Disclose</a> website provides an alternative source for details on fees.</p>

	<p>inception (1 April 2014). While the cents per unit distributed has fallen slightly in recent times in line with the overall level of interest rates, the Fund has continued to provide a gross fixed monthly income in excess of bank deposit rates.</p>	<p>Given the Manager's positioning of the Fund as an alternative to term deposits, investors should note the historical distributions have decreased since inception. One year's term deposits vary across providers, however the fixed monthly component of the Fund remains higher than one year term deposits, on aggregate and at the time of writing. There may be additional income, in excess of the declared amount, and some growth, courtesy of the equity investments.</p>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>AMP Capital has a sound management structure in place in New Zealand, supported by a Board of Directors which is responsible to the shareholder, AMP Capital Holdings Limited and its ultimate shareholder AMP Limited, for the overall governance and performance of the company and its associated companies. AMP Capital in New Zealand operates a number of management and governance committees, some of which report to relevant committees in the AMP Capital Group. There are reporting and escalation processes between Australia and New Zealand to ensure each risk area is appropriately managed across the AMP Capital Group. A risk management framework is used to manage risk within AMP Capital. The framework aligns risk management with good corporate governance and embeds internal control within the business. The framework considers the elements of risk and control assessment, policy and compliance management, incident management including breach reporting, governance and reporting to risk committee and leadership teams.</p>	<p>The Manager has a reasonable governance framework, which is internally staffed. FundSource views the appointment of independent members to key committees as a key aspect of strong corporate governance frameworks.</p> <p>FundSource notes that oversight is also provided by AMP Capital Australia. AMP Limited has achieved aspirational targets, such as female representation on its board, and this has been transferred to AMP Capital leadership teams in Australia and New Zealand.</p> <p>The types of committees employed by the Manager are in line with industry practice. The additional oversight provided by reporting through to Australia is viewed positively.</p> <p>FundSource commends the Manager's approach to <a href="#">corporate responsibility</a>, <a href="#">corporate governance</a>, <a href="#">responsible investment</a>, and commitment as a signatory to the <a href="#">UNPRI</a>. These clear statements enable an investor to make an informed choice as to whether the Manager is aligned with their beliefs.</p>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>In 2016, AMP Capital implemented a comprehensive review of its remuneration framework to ensure the alignment of interests between our clients, staff and business. The remuneration schemes for staff have been designed to ensure they are competitive, maximise staff retention and reward high performance. AMP Capital's remuneration packages provide an appropriate mix of fixed pay and short and long-term incentives appropriate to the level of seniority and type of role. Base salaries are agreed on an individual basis and negotiated on the skills, experience and role of each individual. Salaries are reviewed annually. In addition, AMP Capital has an incentive scheme which is comprised of two components: a team bonus - all permanent staff are eligible to participate in a team bonus, which is determined based on the performance of the team against relevant key performance objectives; and firm profit share - in addition to the team bonus, all staff participate in a Firm Profit Share that aims to build cross-organisational collaboration and align staff to AMP Capital goals.</p>	<p>FundSource observes that to preserve capital and generate a long-term positive return for investors, the Manager must remain operational. The ownership and total funds under management of AMP Capital (NZ) mitigates the Manager or this Fund being at risk.</p> <p>Remuneration structures are as expected for an institutional fund manager, predominantly base salary, with a variable component. The Manager, through its ownership, ultimately works for the benefit of shareholders. Despite this, FundSource believes that the investment team are focused on delivering positive investor experiences.</p>

## Conclusion and Rating

This Fund provides an investor with exposure to a diversified basket of investments, with a strong focus on generating income for investors. This is achieved via a slight bias to defensive assets, over growth assets, it is intended to meet investors short to mid-term cash needs, forming a part of a goals based solution. FundSource believes this is a point of differentiation for the Manager and this Fund. Accordingly, this Fund builds a direct linkage to the Manager's goals based solution, and should be matched with complimentary goals based investments.

The Manager believes the asset allocation is the primary driver of returns. This is a combination of strategic longer term asset allocation and dynamic shorter term asset allocation, assumptions, and views. The Managers core focus outside of asset allocation is identifying and optimising income focused solutions. This is primarily achieved using internal AMP Capital investment capabilities and a small number of mandates managed by external fund managers. The forward projected income is announced on the Managers website, FundSource believes this is a unique feature that is viewed favourably. Investors can use this as a means of determining manager accountability.

FundSource observes that Greg Fleming has strong industry experience, but relatively short Manager tenure. While FundSource believes

Manager tenure is an important factor, the investment team is adequately resourced, based on the broader investment team in New Zealand and Australia and investment committee structures. FundSource believes these factors are a critical in managing key person and tenure risks.

The Manager's basic fee is slightly below the peer average in the FE Analytics NZMI Diversified Defensive sector. No performance fees are charged.

To date the Fund has met its projected income targets, the ability to offer reasonable projected income targets will be influenced by the official cash rates and bank term deposit rates on offer, at any given time. FundSource notes AMP Capital Australia has been managing components of the goals based strategy since 2010 and an Australian version of the Income Generator Fund since August 2013. The Income Generator Fund is an important part of a wider AMP Capital goals based investment initiative.

FundSource recommends that investors carefully consider the Managers asset allocation bias to defensive assets and focus on generating income, matches with their risk profile, investment needs, and objectives.

### FundSource Rating: AA

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

## Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score
Corporate & Investment Governance	15%	3.75 / 5
Investment Philosophy & Process	20%	4.20 / 5
People	25%	3.33 / 5
Portfolio Construction & Implementation	15%	4.17 / 5
Risk Management	15%	4.00 / 5
Investment Fees	10%	3.57 / 5
<b>Overall Average Score:</b>		<b>3.82 / 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

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## RESEARCH IP

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

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

 FundSource

**FundSource Limited** Telephone: +64 4 495 5058  
Level 1, NZX Centre Facsimile: +64 4 496 2893  
11 Cable Street Email: [fundsource+enquires@fundsource.co.nz](mailto:fundsource+enquires@fundsource.co.nz)  
PO Box 2959  
DX: SP23501  
Wellington, New Zealand



**NZX Limited** Telephone: +64 4 472 7599  
Level 1, NZX Centre Facsimile: +64 4 496 2893  
11 Cable Street Email: [info@nzb.com](mailto:info@nzb.com)  
PO Box 2959  
DX: SP23501  
Wellington, New Zealand