



Qualitative Fund Research

Castle Point 5 Oceans Fund

June 2017

About the Manager

Castle Point Funds Management Limited (the Manager, Castle Point) was founded in 2013, and is built on a highly disciplined approach to identifying investment candidates. Castle Point's ownership structure sees the investment team, New Zealand Asset Management (NZAM) and RCP Holdings come together to form RAW Capital Partners, which is the parent company of Castle Point. The Manager has provided a brief profile available [here](#).

Castle Point believes that superior returns can be generated by investing with a long-term perspective and focusing on capital preservation. Combining this with a rigorous approach to in-depth research, and a team that is strongly aligned with investors is key to maximising the identification of these opportunities.

Castle Point clearly spells out its governance and controls framework [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 Castle Point 5 Oceans Fund ("the Fund") provides exposure to global and domestic, growth and defensive assets, via direct securities and/or managed funds. The Fund's asset allocation is biased to international fixed income and international equities. The exposure to growth assets will typically be around 45-55% (with a maximum range of 30-70%). As such the Fund, will generally sit as an alternative to a traditional balanced portfolio due to the variety of instruments available to the Manager.

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 the driver of longer term capital growth. The Manager and selected underlying strategies have the ability to move dynamically across asset classes, which the Manager believes should enhance capital protection in periods of market turmoil. The Fund is

Castle Point manages two PIE funds:

- Castle Point Ranger Fund
- [Castle Point 5 Oceans Fund](#)

In addition, Castle Point also manage segregated accounts for clients.

All four members of the investment team perform research for the underlying investments and each fund has designated dual portfolio managers. Other functions, other than investment functions, are outsourced to third parties. Public Trust provides custodian and supervisor duties, MMC fund administration and NZAM operational support. For the number of funds being managed the team is an adequately resourced team of well tenured and experienced personnel. Individual bios for the team at Castle Point can be found [here](#).

suitable for investors with an investment horizon of more than five years.

Investing in alternative investments, in conjunction with fixed income and cash or cash equivalents, can assist in dampening the volatility of the Fund performance, conversely these levers can hinder performance. The Manager's skill will, in part, be reflected in their ability to manage the allocation between equities, 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, at the Managers discretion.

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 March 2017 Castle Point (the Manager) has more than \$214 million of funds under management (FUM). Castle Point was established to provide investors with a truly differentiated investment offering.</p> <p>As at 31 March 2017:</p> <table border="0"> <tr> <td>Ranger Fund</td> <td>\$16.7m</td> </tr> <tr> <td>5 Oceans Fund</td> <td>\$3.6m</td> </tr> <tr> <td>Mandates</td> <td>\$193.8m</td> </tr> <tr> <td>TOTAL:</td> <td>\$214.1m</td> </tr> </table>	Ranger Fund	\$16.7m	5 Oceans Fund	\$3.6m	Mandates	\$193.8m	TOTAL:	\$214.1m	<p>The Manager has two retail products in the market place. The Fund is an absolute return fund, which currently has a low level of FUM, reflective of the boutique nature of the business and the short period the Fund has been available.</p> <p>The 5 Oceans Fund was launched on 25 October 2016, and is the first global product Castle Point has brought to market. Combining the mandates and the Ranger Fund, the total Manager FUM is sufficient to mitigate corporate risk.</p>
Ranger Fund	\$16.7m									
5 Oceans Fund	\$3.6m									
Mandates	\$193.8m									
TOTAL:	\$214.1m									
<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>Jamie Young and Stephen Bennie are Co-Portfolio Managers. Richard Stubbs and Gordon Sims are analysts. The four have worked together as a team since 2010.</p>	<p>The investment team have worked together for over six years, four years at Castle Point, and previously for two and a half years at Tower, providing comfort that the portfolio management team work well together. Ultimate responsibility for the Fund lies with Bennie and Young, who are the co-portfolio managers (co-PM).</p> <p>Analyst functions are shared between Stubbs and Sims, though all four investment team members are responsible for identifying opportunities and undertaking investment research on the investments that successfully pass through the proprietary filters and candidate gates. The co-PM's have significant experience in manager selection, harking beyond their time prior to Tower. FundSource believes the co-PM's backgrounds are complimentary and well suited to identifying, selecting, and combining the underlying funds for this Fund.</p> <p>All the investment team are co-founders and equal equity owners in the business, which totals 16% as at 2017.</p>								
<p>What objective is the Manager trying to achieve?</p>	<p>The objective of the fund is to generate a positive return above cash with a focus on protecting investor's capital.</p> <p>The performance objective of the fund is to outperform the NZ Official Cash Rate by 3% per annum over the medium to long-term, after all fees (and other expenses) but before tax.</p>	<p>The Fund seeks to provide investors with an absolute return, FundSource notes the OCR +3% benchmark could appear underwhelming, but reflects the Funds expected asset allocation of 45-55% invested in income assets.</p> <p>The Fund was incepted in October 2016, and has a track record less than three years. This performance history is shorter than preferred, leaving FundSource in a position where it is unable to develop a meaningful understanding of how Manager skill translates in to the Fund performance. FundSource has reviewed the underlying managers, and notes that their track record mitigates the Funds lack of track to a small degree. FundSource highlights that the Managers skill in combining the underlying funds is critical to overall Fund performance.</p> <p>The Manager reports performance on a net of fee basis, as detailed on the Funds factsheet. FundSource notes that performance calculations, net of annual fund charges and tax can be found on the</p>								

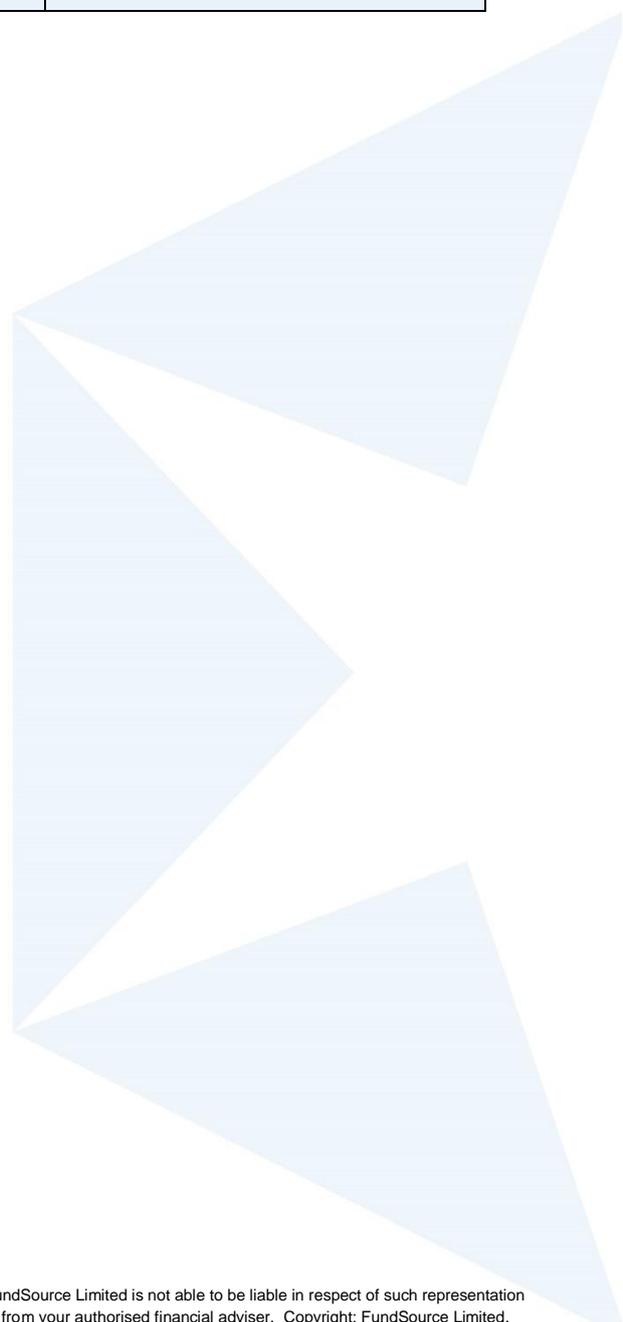
		New Zealand Government's Disclose website here .
What does the Manager invest your money into?	<p>The 5 Oceans Fund can invest into a broad range of asset classes either directly or via managed funds.</p> <p>Included are assets that are designed to increase diversification and provide downside protection in market crashes. Examples include options and hedge funds.</p>	<p>The Fund has a very broad scope across multiple sectors and a broad range of instruments.</p> <p>The asset classes and range of instruments is reflective of the manager operating a real return focused fund, with a Cash+ or CPI+ absolute return performance benchmark.</p> <p>While the range available to the Manager is broad, the Manager is not likely to fully utilise the full bandwidth on a month by month basis. However, there may be periods where the Fund will experience material changes to the allocation of underlying sectors and the type of instruments being used.</p> <p>FundSource believes the Manager's transparency, courtesy of publishing the Fund's holdings on the Disclose Website, to be a strong positive.</p> <p>Given the diversification and material exposure to defensive assets FundSource believes investors should consider the Fund as having a minimum investment horizon of at least five years. Over shorter periods, there is potential for movement in the Funds value.</p>
What are the inherent risks imbedded in the Fund?	<p>Market Risk The returns you receive from the Fund will be affected by the performance of the Fund's investments, which may be affected by the performance of the investment markets generally. This risk includes movements in the general price level and demand and supply in the market in which the relevant investments are made, the sectors in which the investments are made, and economic and regulatory conditions, including market sentiment, inflation, interest rates, employment, political events, environmental and technological issues, and consumer demand both in New Zealand and globally.</p> <p>Currency Risk A portion of the Fund's investments may be invested in assets denominated in currencies other than New Zealand Dollars. Returns may be affected by movements between the New Zealand dollar and other currencies. The Fund's hedging policy is designed to control this risk (see SIPO for further details).</p> <p>Credit Risk The risk of a counterparty to the Fund being unable to meet its payment obligations.</p>	<p>The Manager is aware of the broad range of risks and is mindful of them when constructing and managing the portfolio. Manager selection and fit is important, as the Funds FUM increases FundSource expects the Fund to increase the number of underlying managers and funds</p> <p>The Fund currently comprises a concentrated mix of five underlying managers, one of which is the Managers Ranger Fund. The Ranger Fund typifies the Managers beliefs and is reflected in this Fund, including a mix of fundamental bottom-up security analysis, rather than the confinements of an asset allocation dictating manager selection. Accordingly, the aggregate asset allocation and sector exposure may differ from benchmarks typically assigned to each sector, for example the MSCI World Index for global equities.</p> <p>As the Funds FUM increases, investors should expect the number of underlying managers to increase, notably for the international asset classes. The current concentration introduces risks, as the Manager may not be able to address its investment beliefs.</p>
Why does the Manager believe the future prices of the Fund's investments will vary?	The 5 Oceans Fund has been specifically designed to give a fund with the following attributes:	The Manager combines underlying funds to create exposure to the upside of global risk assets, predominantly shares, that has

	<ul style="list-style-type: none"> • a diversified global exposure to growth and income assets • a material exposure to the upside of growth assets (particularly shares) • a strong focus on capital preservation during market crashes • exposure to alternative, non-equity, risk premiums • exhibits lower volatility than other "balanced" funds 	<p>a value and quality bias, with lower volatility, with exposure to alternative and non-equity assets.</p> <p>The Manager has a capital preservation ethic, embedded in to the Funds objective that sees equity holdings naturally reduce when attractive opportunities are scarce. FundSource notes that this implies there is a bias to downside protection rather than outperformance of equities in growth markets.</p> <p>The Manager employs a detailed manager selection process to identify managers that align with the Managers philosophy of long-term investing with a capital preservation bias. This includes identifying potential candidates, detailed due diligence, and manager visits. Successful candidates are presented at a formal Investment Committee.</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>Castle Point believes that the diversification offered by traditional balanced/diversified funds is often illusory. The modelling their asset allocations rely on are intrinsically flawed, with multiple assumptions that do not hold true in the real world. This leads to much larger drawdowns in market corrections than theory would dictate.</p> <p>The 5 Oceans Fund is inherently different by employing managers and strategies that are not constrained to benchmarks and using alternative strategies that give additional protection in tail risk events. This means the fund is much more dynamic in terms of its asset allocation and focused strongly on capital protection.</p> <p>For investors this gives a compelling alternative to other balanced/diversified funds, one that aims to generate an attractive return over cash with a lower volatility and greater protection of capital long the way.</p>	<p>As the Manager states the Fund invests with an aim of producing positive returns above cash while focusing on protecting investors capital. FundSource believes potential investors should be investing with a minimum five year time horizon in mind.</p> <p>The Fund selects managers that have flexible investment mandates and/or employ risk mitigation strategies. The Manager uses these strategies to give the Fund a dynamic and flexible exposure to growth assets, with an emphasis on capital protection. FundSource believes the Funds focus on long term capital preservation could make the Fund an attractive diversifier or additional satellite investment, in a well-diversified portfolio.</p> <p>The Fund has comfortably outperformed its objective, of OCR +3% as shown in the Funds factsheet, at the time of writing. Compared the 10 funds in the FE Analytics NZMI Diversified Defensive sector, the Fund has performed below the average per fund performance, over six months. FundSource notes that the Funds' performance history is too short to meaningfully evaluate. Further performance data is available via the Disclose website and FundSource.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>The team has a long history in selecting external managers. This allows us to undertake a thorough research process before a new manager or strategy is employed in the fund. In addition to not just trying to select a best-of-breed manager we also ensure the philosophy and approach of the manager aligns with our beliefs and strengthens the objective and capital preservation approach of the fund. Final recommendations are put to the investment committee before initial investment is undertaken.</p> <p>The decision to exit an underlying manager is generally taken if some change has occurred that weakens the original</p>	<p>The Manager's preference is to invest in-house where the Manager believes they have the capability and suitable strategies.</p> <p>The buy and sell decision is a combination of the Manager and underlying managers' assessment of market risk. The Manager has the ability to vary the growth exposure between 30%-70%, as well as the weight to each underlying fund, in the portfolio. The Manager has also selected underlying managers that have flexible investment mandates and/or employ risk mitigation strategies. It is conceivable, but unlikely, that an underlying manager may hold a view that is counter to Castle Point. Should this occur, FundSource expects that Castle</p>

	<p>investment rationale, e.g. change in personnel, deviation from stated philosophy or approach, or significant increase in FUM.</p>	<p>Point will vary the weight or remove the underlying fund.</p> <p>The asset allocation of the Fund is monitored daily, and takes account market movements, together with any inflows and outflows. Rebalancing occurs if actual allocations have deviated sufficiently from desired levels, and justifies trading cost. Rebalancing is likely to have a greater impact on buy and sell decisions, as opposed to removing an incumbent fund.</p>														
<p>Has the CIO/ Portfolio Manager personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>The investment team own units in the Fund and pay the standard fees.</p>	<p>FundSource believes that the interests of investment personnel are better aligned to those of the investors, when investment personnel are significantly invested, and at the same fees.</p> <p>The Manager believes this to be an important aspect as well, and accordingly, all the investment team have their wealth, beyond property, invested in this Fund, as well as other funds managed by Castle Point. Effectively the investment team are eating their own cooking, bringing strong investor alignment.</p> <p>FundSource does expect that investment personnel should be paying the same fees as other investors, to ensure the experience of both parties is symmetrical. FundSource notes that the staff at Castle Point pay the same fees as investors.</p>														
<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>The Fund is designed to have a diversified asset and geographic exposure and does not follow any underlying benchmarks. The exposure to growth assets can be varied between 30% and 70% of the Fund depending on the underlying managers' assessment of market risk. This is quite different from traditional diversified funds which often target a set growth allocation and invest accordingly.</p> <p>The Fund achieves this by carefully selecting managers that have flexible investment mandates and/or employ risk mitigation strategies. This gives the Fund a dynamic and flexible exposure to growth assets and greater focus on capital protection in the event of market crashes.</p> <p>The Fund does not have a strict target asset allocation rather employs broad ranges for the different asset classes, as detailed in the Fund's SIPO.</p> <table border="0"> <tr> <td>Tracking Error</td> <td>n/a</td> </tr> <tr> <td>Cash:</td> <td>0% to 70%</td> </tr> <tr> <td>NZ Fixed Income</td> <td>0% to 70%</td> </tr> <tr> <td>International Fixed Income:</td> <td>0% to 70%</td> </tr> <tr> <td>Australasian Equities:</td> <td>0% to 50%</td> </tr> <tr> <td>International Equities:</td> <td>0% to 70%</td> </tr> <tr> <td>Other:</td> <td>0% to 100%</td> </tr> </table>	Tracking Error	n/a	Cash:	0% to 70%	NZ Fixed Income	0% to 70%	International Fixed Income:	0% to 70%	Australasian Equities:	0% to 50%	International Equities:	0% to 70%	Other:	0% to 100%	<p>The Manager has complete discretion when it comes to the asset class level that is cash, bonds and equities ranges, within the limits of the table. However, it is unlikely the Manager will use the full range across each asset class, except for periods of extreme uncertainty. The asset allocation is driven by both the underlying managers and the co-PMs Bennie and Young.</p> <p>The Fund is biased to international investments, but has a reasonable exposure to Australasian investments. The Fund is expected to have an exposure of 45-55% to growth assets (with a maximum range of 30-70%), predominantly equities. Income assets are also diversified both domestically and internationally.</p> <p>The default position for currency hedging is to be predominantly hedged, with international fixed income, Australasian equities and Other asset classed being 100% hedged. International equities are typically 75% hedged, meaning there is some potential for currency movements to impact investment performance.</p> <p>There is no cap on the size of an individual underlying security in the Fund, however due to the use of underlying managers,</p>
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Other:	0% to 100%															

		<p>FundSource does not expect a single security to be a meaningful position, that is >10%, in the Fund. FundSource notes that the allocation to a single manager could be material, however due to the constraints outlined in the table, the Fund is likely to have exposure to multiple sectors, and therefore more than more underlying manager.</p>
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>The Fund charges a capped management fee of 1.05%. This covers our management fee, the management fees of the underlying funds the Fund invests into and normal operating expenses of the Fund. The only additional fees to this are operating expenses of the underlying funds where they are in addition to each fund's respective management fees (estimated to be 0.02%) and any performance fees charged by the underlying funds.</p> <p>The Manager believes that for an absolute return Fund, such as 5 Oceans, which employs highly active and differentiated strategies this a fair and transparent fee structure and one that compares very favourably to more "vanilla" balanced fund products.</p>	<p>FundSource believes the Manager is transparent from a fees perspective, noting the annual fund charge is capped, as disclosed in the Product Disclosure Statement (PDS), which includes an indicative performance fee calculation. The Disclose website provides further details on fees.</p> <p>Of the 11 FE Analytics NZMI Diversified Flexible sector peer funds, 10 have a Cash/ CPI Plus or Absolute benchmark. FundSource notes that the Funds manager basic fee is below the average FE Analytics NZMI Diversified Flexible sector average.</p> <p>FundSource highlights that underlying manager(s) may charge performance fees, any performance fees charged by underlying funds are paid by investors, in addition to the manager basic fee.</p>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>Castle Point strives to have best practice operating systems and procedures when accepting, investing, managing and reporting back to clients, including:</p> <ul style="list-style-type: none"> • Castle Point is licensed by the FMA to provide both Managed Investment Schemes and Discretionary Investment Management Services. • Government owned Public Trust is the independent supervisor and custodian for the funds. • Clients' investments are priced daily by MMC an independent party. • All funds are independently audited by Deloitte. • All funds undergo a daily check by the operations team to ensure funds are within mandate, • Dealing in direct securities is not undertaken by the portfolio managers. • The board is independently chaired and contains senior compliance expertise at Board level. • Investment Committee meets quarterly and provides an additional layer of oversight on the portfolios. • The Compliance Assurance Committee meets quarterly and has an independent chair. • A client advisory panel meets yearly to ensure the investment team remains true to the investment philosophy and provide an additional feedback mechanism for investors. 	<p>The Manager has a reasonable governance framework. FundSource believes this could be significantly strengthened by increasing the number of Non-Executive Directors and appointing them to more Committees that are separated from the general board, this may include Audit and Remuneration committees.</p> <p>FundSource views the appointment of independent members to key committees as a key aspect of strong corporate governance frameworks. In the case of the Manager the appointment of Amanda Smith is viewed positively. Having Greg Peacock from significant shareholder, NZAM, is also viewed positively.</p> <p>The Client Advisory Panel is an interesting feature, despite being a little unclear as to what purpose it serves. FundSource believes fund managers should actively seek to engage with investors directly, as well as through intermediaries.</p>

<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>One of Castle Point's core beliefs is that strong investor alignment is paramount. The investment team have their savings outside of property invested in Castle Point's funds, both the Ranger Fund and the 5 Oceans Fund.</p> <p>In addition, the investment team all have an equity stake in the business, the four members of the team have 4% each.</p>	<p>To remain operational the Manager must preserve current FUM, and grow FUM by generating long term positive returns for investors.</p> <p>Being partly owned by the Investment team and aligning variable compensation to performance is a positive alignment of interests with investor outcomes.</p> <p>Ownership can assist with team stability; however, the level of ownership is typically more significant than the current 4%.</p> <p>Importantly, the investment team founded the business and have managed to grow the business to the point it is moving toward if not breaking even. The other shareholders, NZAM and RCP Holdings, mitigate the corporate risk typically associated with a relatively new business with less than four year track record.</p>
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Conclusion and Rating

Overall, the Fund provides an investor with exposure to a portfolio that can dynamically move across equities, fixed income, and cash. While the Manager is active across these asset classes, the core focus is expected to be international exposure, but can include Australasian exposure. There will be a bias to equities, which are expected to range between 45-55%. Investors must be prepared to allow the Manager to make asset allocation decisions that could be potentially fluid. The international exposure is managed by appointing external fund managers for equities and fixed interest. FundSource believes that investors considering this Fund, should have a minimum investment timeframe of five years.

Castle Point are a newer manager, and as such corporate risk should be as much a focus as investment performance. The sustainability of Castle Point is enhanced by the strength of its owners, including NZAM and RCP Holdings, both being non-related and well-funded entities, and at present the 4% held by each of current the investment team members.

FundSource observes the investment team has strong industry experience, and both Portfolio Managers have extensive experience in selecting external fund managers. Pleasingly the investment team have remained together, despite challenges that became the catalyst to launch Castle Point

Funds Management, and worked together prior Castle Point for approximately three years.

The interests of the investment team are aligned to those of the investor, via the investment team's shareholding in the company and their investment in the Fund, paying the same fees as retail investors. This degree of alignment is viewed positively. FundSource notes the manager's basic fee is slightly below the average FE Analytics NZMI Diversified Flexible peer fee, and no performance fees are charged.

The investment team has sufficient resources to manage the number of products they currently have in the market place. The majority of the Managers work for this Fund is based around external manager selection, portfolio positioning of each underlying manager and overall asset allocation and currency hedging.

This second fund launched by the Manager since commencing operation in 2013, the Funds launch date being October 2016, hence the Funds short track record. Correspondingly, how the Fund reacts and the Manager adjusts the portfolio, proactively or reactively, remains a little unclear and presents the greatest risk, this will develop and become clear over time.

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%	3.25 / 5
Investment Philosophy & Process	20%	3.60 / 5
People	25%	3.67 / 5
Portfolio Construction & Implementation	15%	3.00 / 5
Risk Management	15%	3.20 / 5
Investment Fees	10%	3.14 / 5

Overall Average Score: **3.37 / 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

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



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