



Qualitative Fund Research

Fisher Funds Australian Growth Fund

March 2017



Awards 2016
Fund Manager of the Year
Australian Equity Sector - Winner

About the Manager

Fisher Funds Management Limited (the Manager, Fisher) was founded in 1998, making the Manager one of the more established boutique, which has transformed in to smaller institutional manager, while priding themselves on retaining their specialist investment manager focus. Fisher aim to deliver great investment returns and superb client service. The Manager has provided a brief profile available [here](#).

Fisher's investment philosophy and process is based around factors the Manager can predict and understand and is based around a stock picking framework, known as [STEPP](#), which underpins the investment process.

Fisher extends its passion to this passion to good governance, Fisher outline their key board policies outlined [here](#), and actively contributes back to the local communities, available [here](#). FundSource Ltd views corporate citizenship and governance frameworks as extremely important foundations

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 Fisher Funds Australian Growth Fund ("the Fund") gives investors targeted access to a hand-picked portfolio of quality growing Australian businesses.

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

The fund intends to be fully invested, however, cash can range from 0%-30% and can invest up to

from which a manager starts to engage with the clients' experiences.

Fisher have instigated research on five funds:

- [Fisher Funds Australian Growth Fund](#)
- Fisher Funds BondsPlus
- Fisher Funds Trans-Tasman Fund
- Fisher Funds Global Fund
- Fisher Funds Property & Infrastructure Fund

The Australian Growth Fund is directly managed by a team of three, who form a part of a total investment team comprising 19. For the number and type of funds being managed, the team is adequately resourced and governed, with well tenured executives and portfolio managers. The Manager has provided individual bios for the team [here](#).

10% in alternative investments. The Managers scope of alternatives includes investments, strategies and derivatives outside of traditional asset classes - that is cash, fixed interest equities and property. The expected currency hedging level is 70%, but can range from 0%-110%. The Fund's investment policy prohibits the investment in to companies that are involved in the manufacturing of military armaments or tobacco.

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

| Question | What the Manager says | What FundSource think | | | | | | | | | | | | |
|--|--|---|----------|------------|----------|--------------|----------|----------------------------|----------|---------------|----------|----------------------------------|-----------------|---|
| <p>What are the Manager's assets under management - in total and in this Fund?</p> | <p>As at 30 November 2016, Fisher Funds Management is responsible for funds under management (FUM) of approximately \$7.4 billion.</p> <p><i>As at 30 November 2016:</i></p> <table border="0"> <tr> <td>Australian Growth:</td> <td>\$ 58.5M</td> </tr> <tr> <td>BondsPlus:</td> <td>\$156.0M</td> </tr> <tr> <td>Global Fund:</td> <td>\$ 86.7M</td> </tr> <tr> <td>Property & Infrastructure:</td> <td>\$ 63.0M</td> </tr> <tr> <td>Trans-Tasman:</td> <td>\$ 46.7M</td> </tr> <tr> <td>Total in these PIE Funds:</td> <td>\$231.0M</td> </tr> </table> | Australian Growth: | \$ 58.5M | BondsPlus: | \$156.0M | Global Fund: | \$ 86.7M | Property & Infrastructure: | \$ 63.0M | Trans-Tasman: | \$ 46.7M | Total in these PIE Funds: | \$231.0M | <p>The business has significant funds under management across its product suite.</p> <p>The Australian Growth Fund was established on 1 June 2005. In total the Manager has a total of \$477 million invested in Australian equities</p> <p>FundSource notes the Manager has been growing due a combination of organic growth, acquisitions and partnerships.</p> |
| Australian Growth: | \$ 58.5M | | | | | | | | | | | | | |
| BondsPlus: | \$156.0M | | | | | | | | | | | | | |
| Global Fund: | \$ 86.7M | | | | | | | | | | | | | |
| Property & Infrastructure: | \$ 63.0M | | | | | | | | | | | | | |
| Trans-Tasman: | \$ 46.7M | | | | | | | | | | | | | |
| Total in these PIE Funds: | \$231.0M | | | | | | | | | | | | | |
| <p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p> | <p>Manuel Greenland</p> | <p>Greenland has been the Fund's Portfolio Manager (PM) since April 2014. Greenland joined the Manager in 2012, commencing in the role of international equities analyst. Historically Frank Jasper, currently the joint PM of the Global Fund, has had analyst and portfolio responsibilities for the Australian strategy.</p> <p>Importantly FundSource highlights Terry Tolich has had analyst responsibilities across Australian equities for the past 10 years at Fisher. Tolich has significant experience researching Australasian companies and is viewed as a key person, despite not holding PM responsibilities. Due to the size of the overall investment team, key person risk, while present, is not considered significant.</p> <p>Operations, client services and compliance functions are all separated from the investment management functions. This ensures appropriate attention is being given to the operational aspects of investing, and assist in keeping the investment personnel focused.</p> | | | | | | | | | | | | |
| <p>What objective is the Manager trying to achieve?</p> | <p>The fund aims to achieve capital growth over the long term by investing in quality Australian companies who can consistently produce increasing earnings</p> | <p>The Manager has a primary objective to achieve capital growth, and a secondary objective which is to exceed the return of the Funds benchmark, before fees and tax. In both cases the quantum of growth and outperformance is not clearly specified.</p> <p>The Funds' historical performance has varied over the last 10 years. Since Greenland assumed PM responsibilities in 2014, the Funds' performance has varied, compared to the FE Analytics NZ Australia Fund Sector. FundSource notes that the FE Analytics sector includes a significant number of small company funds, which differs from the Managers all cap investment approach. The Funds' performance is available on the Managers seen website. Further historical performance data is available on the Disclose website.</p> | | | | | | | | | | | | |
| <p>What does the Manager invest your money into?</p> | <p>Australian Shares</p> | <p>The Fund predominantly invests in Australian equities, with no specific style biases, focusing on companies that have been fully researched, using the Managers proprietary process. FundSource does not consider the Managers process to be</p> | | | | | | | | | | | | |

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| | | <p>quantitative in nature, despite analysts scoring a range of factors.</p> <p>The Fund is suitable for investors who want an actively managed, benchmark unaware, Australian equity fund. The Fund looks to maximise the investors potential return by not restricting the market capitalisation, so long as the Funds liquidity requirements are met.</p> <p>The Manager can have meaningful views expressed in the portfolio, with tracking error expected to be less than a chunky 8% and an individual company up to 20% of the Funds gross asset value.</p> |
| <p>What are the inherent risks imbedded in the Fund?</p> | <p>Share price declines are the major risk.</p> | <p>The Manager is aware of the broad range of risks, as documented in the Product Disclosure Statement (PDS). The Manager is mindful of these risks when constructing and managing the Fund. The Investment Policy Committee develop key parameters of the Fund. FundSource notes that the Investment Policy Committee does not manage or interfere with the day to day decisions of the portfolio, these rest solely with the Portfolio Manager and investment team.</p> <p>Mitigating risk can be achieved by consistency in the decision making process assists in managing risk. The Manager achieves this by using the proprietary systematised STEEPP process. FundSource believes the STEEPP process is a critical to managing portfolio risks, in what is a relatively unconstrained fund.</p> |
| <p>Why do they believe the future prices of the Fund's investments will vary?</p> | <p>We invest in companies with a strong competitive position, a long track record of success, strong past and forecast earnings growth, talented people and an attractive share price.</p> | <p>Models provide a basis for consistent decision making, Fisher employs its proprietary decision making process labelled STEEPP. The Manager provides a detailed overview of the STEEPP process here. As the Manager states the STEEPP process is applied to existing and new portfolio companies. FundSource believes the process is applied across all of the Managers funds, and is viewed positively.</p> <p>The STEEPP process not only determines the status for existing and new companies, but also acts as a guide to the size of the position in the portfolio. Making the process is a significant contributor to the portfolio implemented by the PM. FundSource notes that the manager is not restricted to a specific subset of the ASX, that is the Fund is an all-cap fund, investing in small to large cap Australian listed companies.</p> <p>The Fund incorporates an Environment, Social and Governance (ESG) overlay in to its decision making process, however, this does not imply that the companies it invests in are signatories to the UNPRI, or the fund is considered an ESG fund.</p> |

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| <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>Fisher Funds has a strong stock selection process and long track record. This is not your typical Australian fund providing investors with selected exposure to high quality companies outside of the heavyweight banking and resource sectors.</p> | <p>The Manager is providing investors with an opportunity to gain exposure to listed Australian companies, focusing on those companies that currently deliver or a likely to deliver a regular dividend stream. Of the 91 funds in the FE Analytics NZ Australian Equity sector, this is one of 13 funds that are in a PIE structure or NZX listed ETFs. FundSource notes that Australian Equity PIE funds tend to be less constrained than most Australian based fund managers, which can provide some diversification.</p> <p>Investors should expect the fund to be fully invested, with the cash allocation a result of the STEEPP process, rather than an active decision, cash can range from 0-30%. With an inception date of June 2005, the performance history, Funds longer term track record has shown average risk adjusted returns, compared to the FE Analytics NZ Australian Equity sector. The performance history of the Fund is available on the Managers website.</p> <p>The Disclose website outlines the Funds' performance since inception, on a net of fees and tax basis. FundSource notes that reference performance benchmark, on the Disclose website, is gross of fees and taxes.</p> |
| <p>How does the Manager decide to buy or sell investments?</p> | <p>Fisher Funds employs a screening process called STEEPP to identify the highest quality securities</p> | <p>All companies invested in undertake the STEEPP process. The process is implemented after initial quantitative filtering has taken place to identify companies that meet a series of factors. The paired down universe is further analysed resulting in a subset of approximately 40 companies the investment team will prepare a STEEPP report for.</p> <p>The structured process employed by Fisher across its product suite contributes significantly to the buy/ sell decision making process. FundSource notes that the Manager views the quantitative process as being powerful and robust. FundSource highlights that the fund is not a quantitative fund, and the Manager is acutely aware that investing remains a blend of art and science.</p> <p>Historically the Fund has held significant exposures to companies, closer to the 20% soft limit for a holding in a single security. FundSource believes that investors should be comfortable with a single company comprising a significant position in the portfolio. Particularly when the outcomes may be binary in nature.</p> |
| <p>Has the CIO/ PM personally invested in the Fund? If so, paying the same fees as other investors?</p> | <p>Staff are investors in KiwiSaver which uses the same strategy as this fund</p> | <p>FundSource believes that 'eating your own pudding' should be an aspect potential investors consider, when deciding to invest in any financial product.</p> <p>Investing in funds alongside investors aligns the interests of investment personnel with those of the investors, when investment personnel are significantly</p> |

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| | | <p>invested in a fund they are managing, and at the same fees.</p> <p>The Manager believes the investment team has sufficient alignment with investors by investing via Fisher KiwiSaver funds. FundSource notes that it would prefer to see investment personnel significantly invested in the Managers funds. FundSource believes this is reflective of the Managers change from a boutique to a larger institutional funds management operation.</p> |
| <p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p> | <p>The manager has considerable latitude to deviate from the benchmark.</p> <p>Tracking Error ≤8% Cash Allocation: 0% to 30% Single Stock Limit: 20% Sector Limits: 30% Unlisted Companies 0-10%</p> | <p>FundSource considers the Managers scope for this fund to be broad, which is likely to lead to a portfolio that is materially different in composition to the Funds reference benchmark, the S&P ASX 200 Accumulation Index.</p> <p>FundSource highlights that the Funds hedging ratio is expected to be 70%, however can range between 0%-110%, highlighting the Managers significant discretion. Currency hedging movements are not expected to move significantly, and will reflect the Managers view on NZD versus the AUD.</p> <p>There is a speculative element to the portfolio, being the ability to invest in unlisted securities, proposed listings may or may not occur within the timeframe proposed, or at all. FundSource believes the small and very infrequent allocation allowed at both the Fund and security level does not significantly contribute to risk, however, may not be palatable to some investors.</p> <p>The Manager and PM implement investment decisions based on the Statement of Policy and Objectives (SIPO) guidelines. Oversight if the Funds operations is provided by a separated Compliance team, who report any breaches to the Supervisor. The SIPO is reviewed by the Fisher Funds Investment Policy Committee.</p> |
| <p>On what basis does the Manager believe the fees they charge are justified?</p> | <p>The manager charges a fee that reflects a unique active portfolio management process and a high standard of client servicing. All investments are hand-picked by the team and there is full disclosure and transparency with investors about the composition and contribution to returns of the underlying portfolio.</p> | <p>FundSource believes the Manager is transparent from a fees perspective, noting the administration and underlying manager fees are disclosed in the Product Disclosure Statement (PDS) available here, and via the Disclose website.</p> <p>FundSource observes that the management basic fee is in line with the average peer Australian equity fund, as represented in the FE Analytics NZ Australian Equity sector. Of the 91 funds in this FE Analytics sector, 20 charge performance fee, and are predominantly small, mid cap or long short strategies. Only one other PIE structures manager charges a performance fee. FundSource would prefer to see a material reduction in the basic manager's fee where performance fees are charged, this is not</p> |

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| | | always the case with Australian based funds either. |
| How would you describe the quality of your organisational and investment governance processes? | <p>Fisher Funds' Board and management are committed to ensuring that our people act ethically, with integrity and in accordance with Fisher Funds' policies and values. Fisher Funds' corporate governance practices and policies are designed to support the ongoing success of the company and ensure the highest standards of ethical conduct. Our control systems exist to ensure that we meet all fiduciary obligations to our investors and comply with laws and standards including the corporate governance principles and guidelines issued by the Financial Markets Authority.</p> <p>Fisher Funds' governance processes include a) an investment subcommittee of the board of directors, an investment policy committee, separation of portfolio management and dealing activities and strong internal compliance systems. The Board regularly reviews and assesses Fisher Funds' governance policies, processes and practices to identify opportunities for enhancement and to ensure they reflect Fisher Funds' operations and culture.</p> | <p>The Manager has a very strong governance framework, starting with the appointment of a non-executive Chair and a Board structure that has five non-executive members, versus three executive members. FundSource notes this is in part reflective of ownership changes as the Manager has become increasingly institutional, by way of acquisitions.</p> <p>FundSource views the Fisher Funds Investment Policy Committee positively, however the inclusion of external advisers to the Investment Committee is considered industry best practice.</p> <p>FundSource believes the Manager's transparency exceeds the requirement that the Fund's holdings be displayed on the Disclose website. The Manager provides an outline on the portfolio holdings on its own website. FundSource is strongly in favour of fund manager transparency, and notes the underlying securities are predominantly long only Australian equity positions.</p> <p>The Manager does outsource some functions, and regularly reviews each provider throughout the year, for example quarterly or half yearly. FundSource highlights that the Funds administrator and custodian functions are considered to be material relationships and the Manager reviews these key functions via a regular annual review.</p> |
| Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team? | Alignment of interests is achieved by rewarding the investment team on the basis of fund performance. | <p>FundSource observes that to preserve capital and generate a long-term positive return for investors, the Manager must remain operational.</p> <p>The Manager has undergone significant structural change to its ownership since 2011. These changes have resulted in the Manager having a more institutional ownership, rather than the investment team being significant shareholders.</p> |

Conclusion and Rating

The Fund provides an investor with exposure to an Australian equity fund that is focused on companies that will grow in value, at a greater rate than the Funds benchmark. The fund can invest in non-benchmark securities, which can be material positions in the portfolio, and unlisted companies, which FundSource does not expect to be material or feature significantly. FundSource also highlights that the Manager can take significant sector weights. Investors should expect this Funds portfolio positioning to be materially different to that of the Funds reference benchmark.

FundSource notes that the Funds FUM is relatively low, and capacity is not considered an issue. The Managers total FUM across all of its retail and KiwiSaver funds, including the inter funding of diversified fund in to its sector funds, reduces the impact of low FUM in any one fund, and business risk.

The Manager has grown significantly over the last three years, via joint ventures, acquisition, and organic growth. As the Managers funds under management has grown, the Manager has invested in investment personnel, and has seen some

changes, most recently due to retirement. The Manager is aware that developing talent over time will assist in transitioning investment responsibilities in the long term, expanding its analyst teams. FundSource's conviction in the Manager is underpinned by its ability to adapt and attract staff and manage the transition from boutique investment manager to a small institution, while remaining focused on investor engagement.

The Managers basic fee is in line with the peer average in the FE Analytics NZ Australian Equity Fund sector. FundSource would prefer to see a reduction in basic management fees when performance fees are being charged. FundSource sees this as a key detractor, from a fee perspective.

FundSource recommends that investors carefully consider that the Managers focused high conviction approach to managing Australian equities, meets their investment needs and objectives.

FundSource Rating: **AA**

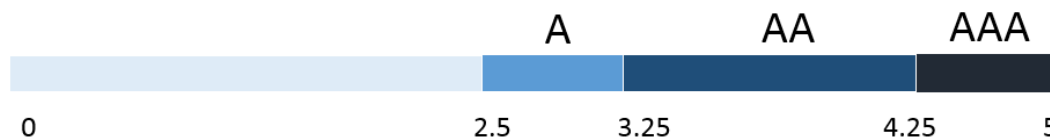
Fund ratings are current as at the date of publication of this report. FundSource reserve the right to review and update fund ratings from time to time.

Research Factor Weighting

| Research Process Category | Model Factor Weight | Analyst Average Score |
|---|---------------------|-----------------------|
| Corporate & Investment Governance | 15% | 3.50 / 5 |
| Investment Philosophy & Process | 20% | 4.00 / 5 |
| People | 25% | 4.00 / 5 |
| Portfolio Construction & Implementation | 15% | 3.67 / 5 |
| Risk Management | 15% | 3.80 / 5 |
| Investment Fees | 10% | 2.86 / 5 |
| Overall Average Score. | | 3.55 / 5 |

FundSource Rating Guide

The qualitative rating of a fund is a function of the FundSource Research Factor Weighting process, which is built around the six core qualitative research process categories. The weighted scores result in an overall score, out of five, which is then matched to the following rating:



AAA: Highly Recommended

Funds that have superior average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, significantly experienced and stable senior personnel, a sound track record over a full market cycle, a clearly defined investment philosophy and process, and a portfolio consistent with that philosophy and process. The management company will also have established effective controls to maintain that philosophy.

AA: Recommended

Funds that have strong average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, experienced and stable personnel, a sound track record over a full market cycle, a clearly defined investment philosophy and process, and a portfolio consistent with that philosophy and process. The management philosophy must be coherent and consistent with existing portfolios and processes.

A: Investment Grade

Funds that have good average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, experienced personnel, a sound track record a defined investment philosophy and process, and a portfolio consistent with that philosophy and process.

FW: Fund Watch

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

S: Sell

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

NR: Not Rated – Screened/ Not Rated

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

Disclaimers, Disclosures and Warnings

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Warning: Past performance is not a reliable indicator of future performance. Any information, opinions, views or recommendations in this report are for general information purposes only. To the extent that any such information, opinions, views and recommendations may constitute advice, they do not take into account any person's particular financial situation or goals and therefore do not constitute personalised financial advice under the Financial Advisers Act 2008, nor do they constitute advice of a legal, tax, accounting or other nature to any person. This report should not be relied upon as a substitute for advice from your authorised financial adviser.

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FundSource delivers high quality quantitative and qualitative fund research to financial advisors and the broader financial services industry. FundSource works with a number of expert providers to source this data. Quantitative data is supplied by FE Australia, while qualitative research is provided by Research IP.

FundSource is a wholly-owned subsidiary of NZX, the operator of the New Zealand stock exchange. For more information about FundSource please visit www.fundsource.co.nz



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



RESEARCH IP

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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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