



Qualitative Fund Research

Fisher Funds Bond Plus Fund

April 2017



Awards 2016

Fund Manager of the Year
International Fixed Interest Sector - Winner

About the Manager

Fisher Funds Management Limited (the Manager, Fisher) was founded in 1998, making the Manager one of the more established boutiques, which has transformed in to a 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 extends its passion to good governance, Fisher outline their key board policies outlined [here](#), and actively contributes back to the local community, available [here](#). FundSource Ltd views corporate citizenship and governance frameworks as extremely important foundations 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 BondPlus Fund](#)
- Fisher Funds Trans-Tasman Fund
- Fisher Funds Global Fund
- Fisher Funds Property & Infrastructure Fund

The Bond Plus 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](#).

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 BondPlus Fund ("the Fund") gives investors exposure to an index aware diversified portfolio of international fixed interest securities, underpinned by two global bond managers.

Fisher's investment philosophy and process, for this Fund, focuses on manager selection and ensuring mandate guidelines, based around the Barclays Global Aggregate Index, are maintained.

The Fund is subject to credit, interest rate, and duration risks and movements (both positive and negative), and 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 three years.

The fund intends to be fully invested, however, cash can range from 0%-30%. The Fund can hold a small exposure to sub-investment grade securities, however, the minimum weighted average credit rating is restricted to an A rating.

The Fund is a Portfolio Investment Entity (PIE) and makes quarterly distributions. The benchmark hedge ratio is 100% in to NZD.

Question	What the Manager says	What FundSource think												
What are the Manager's assets under management - in total and in this Fund?	<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><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 BondPlus Fund was established on 1 November 1990, however, became a part of the Fisher Funds suite in 2013, as a result of Fishers acquisition of Tower Investments. The Manager has over \$931 million invested in international fixed interest markets. The Manager has been managing funds that can invest in international fixed interest since 2011.</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													
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Total in these PIE Funds:	\$231.0M													
Who is accountable for managing the Fund, and how long has the investment team worked together?	David McLeish	<p>McLeish has been the Fund's Portfolio Manager (PM) since April 2014. McLeish joined the Manager in 2010, commencing in the role of Portfolio Manager of the Fisher Funds Income Fund. Mark Brighthouse is the Funds Co PM, Brighthouse is Fisher Funds Chief Investment Officer (CIO). FundSource notes the fund transitioned to the Fisher investment team as part of the Tower Investments acquisition, in April 2013. FundSource notes this can seem like a small team for an international fixed interest strategy, which is mitigated by outsourcing the funds management to two global managers.</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>												
What objective is the Manager trying to achieve?	The fund aims to provide moderate protection for your investment while also generating modest returns over the long term by investing in international fixed interest assets.	<p>The Manager has a primary objective to provide capital protection with a modest level of capital growth, over the long term. The Funds secondary objective 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. The Manager reports performance on its website compared to the Barclays Capital Global Aggregate Index hedged to the NZD.</p> <p>The Funds' historical performance has varied over the last 10 years. Since McLeish assumed PM responsibilities in 2013, the Funds' performance has been mixed, compared to the FE Analytics NZMI Fixed Income Global sector, for the broader mix of 41 funds available in PIE or Australian Unit Trusts (AUT) structures. The Funds' performance is available on the Managers website. Further historical performance data is available on the Disclose website.</p>												
What does the Manager invest your money into?	Global Bond Markets	The Fund looks to predominantly invests in via two global fixed interest managers, currently PIMCO and Wellington. In both cases the Fund uses mandates, both of												

		<p>which are actively managed against the Barclays Global Aggregate Index. Underpinned by aligned with their global aggregate process. Notably Fisher Funds, via its mandates, may place tighter restrictions on those of the PIMCO and Wellington. FundSource highlights that the key responsibility of the investment team is to ensure the underlying manager mandates remain within the Funds guidelines and costs are managed.</p> <p>The Fund is suitable for investors looking for an actively managed, benchmark aware, international fixed interest fund. The underlying fund managers have some discretion within their mandates. The Manager can have meaningful views expressed in the portfolio. The Fund's neutral position for currency hedging is 100%.</p>
What are the inherent risks imbedded in the Fund?	Rising interest rates or adverse changes in creditworthiness are the major risks.	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.
Why does the Manager believe the future prices of the Fund's investments will vary?	Fixed Interest markets go through cycles in term of yield levels and credit margins. These will cause variation in the prices of fixed interest investments and create opportunities for long term investors with a strong fundamental process.	<p>Movements around credit markets, duration and yield will impact the value of the underlying securities of the two fund managers. The Funds' performance will be determined by the allocation to each underlying fund manager and the cash allocation.</p> <p>The allocation to each underlying manager is typically reviewed on a quarterly basis, however may be increased should macro conditions deteriorate. The Manager has had a bias to the less benchmark aware PIMCO portfolio, however, investors should be aware that the allocation can vary over time. The Funds minimum average A credit rating for the two mandates should see a significant bias to investment grade securities, and mitigate portfolio volatility, which, compared to the FE Analytics NZMI Fixed interest Global sector peer average, has been the case since Fisher Funds assumed portfolio responsibilities in 2013.</p>
Why does the Manager believe you should give them your money rather than to someone else or to an inexpensive index fund?	The underlying managers of this fund are among the most respected global bond firms in the world.	Outsourcing the investment management of this benchmark aware Fund to global bond managers reduces the load on the Managers. Of the 41 funds in the FE Analytics NZMI Fixed Interest Global sector, approximately 50% are PIE funds, the balance are Australian Unit Trusts or NZX listed ETFs. This sector is relatively small sector, FundSource notes that the underlying managers are not exclusive to this Fund, however using mandates

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	<p>Min Average Credit Rating A</p> <p>Minimum Bond Rating B-</p> <p>Overall currency hedged 90% to 110%</p> <p>Each currency deviation +/- 25%</p> <p>Non benchmark currencies ≤15%</p> <p>Max agency mortgages 100%</p> <p>Max non-agency mortgages 20%</p> <p>Max REMICF/CMO 20%</p> <p>Max Mortgage Derivatives 20%</p> <p>Max Asset Backed Securities 10%</p> <p>Max Private Placements 15%</p> <p>Max Loan Participants 5%</p> <p>Max Bank loan 5%</p> <p>Max CDO/CBO/CLO 2%</p> <p>Max Event Linked Notes 5%</p> <p>Max Emerging Markets 25%</p> <p>Max High Yield 10%</p>	<p>benchmark. FundSource believes the Manager is unlikely to invest in unlisted companies, or in the case they did, it would be very small and very infrequent, however, may not be palatable to some investors.</p> <p>FundSource highlights that the Funds hedging ratio is expected to be 100%, however can range between 90%-110%.</p> <p>The Managers core function is to review the underlying fund managers and ensure their compliance with their mandates and with the Statement of Policy and Objectives (SIPO) guidelines. Oversight of 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>
On what basis does the Manager believe the fees they charge are justified?	<p>The manager charges a fee that reflects the global bond securities are managed by two of the leading global firms in this sector.</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), and via the Disclose website.</p> <p>FundSource observes that the management basic fee is higher than the average peer fund, as represented by the 41 funds in the FE Analytics NZMI Fixed Interest Global sector. When the administration fees are added to the Managers basic fee the fund becomes one of the more expensive funds in the FE Analytics sector. FundSource believes there is reasonable scope for the Manager to review the fees with a view to reducing to at least in line with the FE Analytics sector peer average.</p>
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 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, for the Investment Series is in line with the minimum requirement, as the Fund's holdings are displayed on the Disclose website. FundSource notes that the Manager does not publish the portfolio holdings for the Investment Series Funds, whereas the portfolio holdings are published on the Managers website, for the Managed Funds product suite. Series are not published on the Manager</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 achieving 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 index aware diversified portfolio of international fixed interest securities, underpinned by two global bond managers. Fisher's investment philosophy and process, for this Fund, focuses on manager selection and ensuring mandate guidelines, based around the Barclays Global Aggregate Index, are maintained. The fund can invest in sub-investment grade securities, however, this is not expected to be material in nature, with the portfolio requiring a minimum overall investment grade of an A rating.

The Manager has grown significantly over the last three years, via joint ventures, acquisition, and organic growth. As the Manager's 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, attract staff and manage the transition from boutique investment manager to a small institution, while remaining focused on investor engagement.

The Manager's basic fee is higher than the peer average in the FE Analytics NZMI Fixed Interest Global sector. FundSource believes that there is reasonable scope for the Manager to review the Funds fees, with a view to reducing them. FundSource sees this as a key detractor, from a fee perspective.

FundSource recommends that investors carefully consider that the Manager's multi-manager, benchmark aware approach to managing international fixed interest meets their investment needs and objectives.

FundSource Rating: **AA**

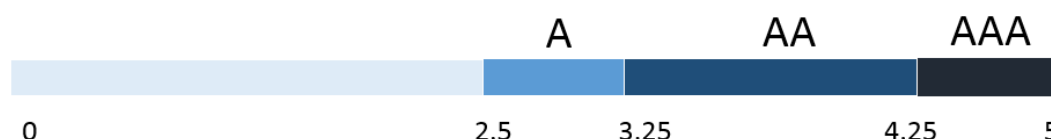
Fund ratings are current as at the date of publication of this report. FundSource reserve the right to review and update fund ratings from time to time.

Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score
Corporate & Investment Governance	15%	3.25 / 5
Investment Philosophy & Process	20%	3.00 / 5
People	25%	4.00 / 5
Portfolio Construction & Implementation	15%	3.67 / 5
Risk Management	15%	3.60 / 5
Investment Fees	10%	2.57 / 5
Overall Average Score.		3.27 / 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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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.

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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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