



Qualitative Fund Research

Fisher Funds Trans-Tasman Equity Trust

April 2017



Awards 2016
Fund Manager of the Year

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 client experience.

Fisher have instigated research on five funds:

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

The Trans-Tasman Equity Trust is directly managed by a team of four, 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 Trans-Tasman Trust ("the Fund") gives investors exposure to predominantly international markets via quantitatively actively managed investments. The Fund can retain cash in multiple currencies, use derivatives and include targeted access to a hand-picked portfolio of quality growing International businesses.

Fisher's investment philosophy and process, for this Fund, is based around proprietary quantitative cash flow, quality, risk factors, combined with the MSCI environmental, social and governance (ESG) factors. The Fund draws predominantly on the Fisher Funds stock picking framework, known as [STEEPP](#).

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 greater than five years.

The fund intends to be fully invested, with cash limited to a range of 0%-10% and can invest up to 10% in unlisted companies. The expected currency hedging level for Australian equities 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 are held in the portfolio is reflected in the Fund's unit price.

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 Global Fund was established on 1 November 1985, however, became a part of the Fisher Funds suite in 2013, as a result of Fisher's acquisition of Tower Investments. The Manager has a total of \$1,449 million invested in global/ international equities. The Manager has been managing funds comprising Australian and New Zealand shares since 2005 and 1998 respectively.</p> <p>FundSource notes the Manager has been growing due a combination of organic growth, acquisitions and partnerships.</p>
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Who is accountable for managing the Fund, and how long has the investment team worked together?	Sam Dickie/ Manuel Greenland	<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. Dickie commenced in March 2017, having run an Asian equity portfolio for the past six years. Both Greenland and Dickie are responsible for developing the security selection model portfolio, comprising Australian and New Zealand companies.</p> <p>Frank Jasper (Director) and Chief Investment Officer (CIO) Mark Brighthouse are responsible for determining the mix of NZ and Australian equities, the 'completion portfolio' of NZ equities and implementation. The role of Jasper and Brighthouse reduces the impact of staff changes, namely the recent appointment of Dickie, to a degree.</p> <p>FundSource notes the fund transitioned to the Fisher investment team as part of the Tower Investments acquisition, in April 2013.</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 achieve capital growth over the long term by investing in Australasian shares.	<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. The Manager reports performance on its website using a hybrid benchmark comprising 70% S&P/NZX50 Gross Index excluding imputation credits and 30% S&P/ASX 200 Accumulation Index.</p> <p>Since the Manager assumed responsibility in 2013, the Funds' performance has been mixed, compared to the FE Analytics NZMI Equity Australasia sector, which consists of 24 funds. The Funds' performance is available on the Managers website. Further</p>												

		historical performance data is available on the Disclose website .
What does the Manager invest your money into?	New Zealand and Australian Shares	<p>The Fund looks to predominantly invest in Australasian companies, with no specific style biases, focusing on companies that have been quantitatively screened through the Managers STEEPP process, and ESG model. FundSource highlights that the key responsibility of the investment team is to manage the mix of Australian and New Zealand companies. FundSource expects the Fund to fully invest in all companies included in the Managers Australian Growth Fund and New Zealand Growth Fund, and a small portfolio called the completion portfolio. The Completion portfolio consists of approximately 10 New Zealand companies, to better reflect the composition of the NZX50.</p> <p>FundSource highlights the Fund does not fully employ the STEEPP process, however, approximately 80% of the Fund's portfolio will include companies that have been subjected to the full STEEPP process.</p> <p>The Fund is suitable for investors who want an actively managed, benchmark aware, Australasian equity fund. The Fund looks to maximise the investors potential return by not restricting the Fund to a specific market capitalisation bias, so long as the Funds liquidity requirements are met.</p>
What are the inherent risks imbedded in the Fund?	Share price declines are the major risk.	<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 employing its STEEPP process for a significant proportion of companies held, and MSCI ESG factors.</p>
Why do they believe the future prices of the Fund's investments will vary?	The Manager invests 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>Setting aside the small number of companies held in the completion portfolio. 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 holds a positive view on the STEEPP process.</p> <p>FundSource notes that the Manager is not restricted to a specific subset of the ASX or</p>

		<p>NZX, for Australian and New Zealand listed companies, respectively. That is the Australian Growth 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. The ESG overlay has been responsible for companies being excluded for factor such as, poor whistle-blower protection, or poor consumer communication.</p>
Why does the Manager believe you should give them your money rather than to someone else or to an inexpensive index fund?	Fisher Funds has a strong stock selection process and long track record.	<p>The Manager is providing investors with an opportunity to gain exposure to listed Australasian companies, focusing on those companies that currently generate regular cashflows from its operations. The FE Analytics NZMI Australasian Equity sector, comprises 24 funds, heavily dominated by New Zealand based fund managers.</p> <p>Investors should expect the fund to be fully invested, with the cash allocation a result of the quantitative process, rather than an active decision, cash can range from 0-20%. With an inception date of November 1985, the Funds short term risk adjusted returns are in line with peer funds, in the FE Analytics NZMI Australasian Equity sector, while tracking error has been reducing compared to peers. The performance history of the Fund is available on the Managers website and via FundSource provided you have registered.</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>
How does the Manager decide to buy or sell investments?	Fisher Funds employs a screening process called STEEPP to identify the highest quality securities.	<p>Setting aside the relatively small NZ equity completion portfolio, all companies invested in have undertaken the STEEPP process. The process is implemented after initial quantitative filtering has taken place to identify companies that meet a series of factors.</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 Australian Growth Fund has held significant exposures to companies, closer to the 20% soft limit for a holding in a single security. The Trans-Tasman Fund is not expected to replicate the significant single security positions. However,</p>

		FundSource believes that investors should be comfortable with a single company comprising a larger than benchmark position in the portfolio.
Has the CIO/ PM personally invested in the Fund? If so, paying the same fees as other investors?	Staff are investors in KiwiSaver which uses the same strategy as this fund	<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 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>
How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?	<p>The manager has latitude to deviate from the benchmark.</p> <p>Tracking Error ≤5%</p> <p>Cash Allocation: 0% to 20%</p> <p>Single Stock Limit: 20%</p> <p>Sector Limits: 30%</p> <p>Unlisted Companies: 0%-10%</p> <p>Currency Hedging Range: 0%-110%</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 hybrid reference benchmark.</p> <p>The Manager can have meaningful views expressed in the portfolio, despite the tracking error being less than 5%, and cash can range between 0%-20%. The Funds currency hedging neutral position for Australian listed companies is 70%, but can range between 0%-110%. However, 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, the risk is that proposed listings may or may not occur within the timeframe proposed, or at all. 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>The Manager and PM implement investment decisions based on 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?	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	FundSource believes the Manager is transparent from a fees perspective, noting the administration and underlying manager fees are disclosed in the Product

	<p>transparency with investors about the composition and contribution to returns of the underlying portfolio.</p>	<p>Disclosure Statement (PDS), and via the Disclose website.</p> <p>FundSource observes that the management basic fee is significantly higher than the average peer Australian equity fund, as represented by the 24 funds in the FE Analytics NZMI Australasian Equity sector. When the administration fees are added to the Managers basic fee the fund to 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>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<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 only 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.</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>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>Alignment of interests is achieving by rewarding the investment team on the basis of fund performance.</p>	<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 index aware portfolio of New Zealand and Australian listed companies, focused on companies that will grow in value at a greater rate than the Fund's benchmark. FundSource also highlights that the Manager can take significant sector weights, and as such, investors should expect this Funds portfolio positioning to be materially different to that of the Fund's reference benchmark. While the fund has the ability to invest in unlisted companies, FundSource does not expect unlisted companies to feature significantly.

FundSource highlights that the core components of this fund are built around the Manager's Australian Growth and New Zealand Growth funds. Both of which are based around the Managers STEEP process, which is viewed positively. The third component is a New Zealand completion portfolio comprising approximately 10 stocks, used to reflect the characteristics of the S&P/NZX50 Gross Index.

FundSource notes that the Fund's FUM is relatively low, and capacity is not considered an issue. The Manager's total FUM across all of its retail and KiwiSaver funds, including the inter-funding of the 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 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 Managers basic fee significantly higher than the peer average fees of the FE Analytics NZ Australasian Equity Fund 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 of the Fund.

FundSource recommends that investors carefully consider that the Managers focused high conviction approach to managing Australasian 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.

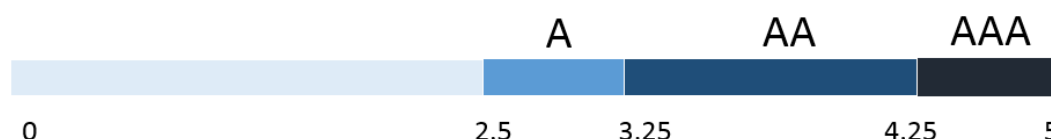
Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score
Corporate & Investment Governance	15%	3.00 / 5
Investment Philosophy & Process	20%	3.60 / 5
People	25%	3.00 / 5
Portfolio Construction & Implementation	15%	3.67 / 5
Risk Management	15%	3.60 / 5
Investment Fees	10%	2.43 / 5

Overall Average Score. 3.25 / 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.

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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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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