



# Qualitative Fund Research

Nikko AM Global Share Fund

January 2019



**Fund Manager of the Year**

## About the Manager

Nikko Asset Management (Nikko AM) acquired Tyndall Investments, both Australia and New Zealand in 2011, with Tyndall changing its name to Nikko Asset Management New Zealand Ltd (the Manager, Nikko NZ). Nikko NZ is one of New Zealand's largest asset managers, providing solutions to a broad range of clients, including corporate superannuation schemes, various trust structures, financial planners, banks, KiwiSaver Schemes and retail investors through platforms, as detailed [here](#).

Nikko NZ is an active investment manager with a medium term focus, who can leverage the broader team of ~200 investment professionals across 11 [global-offices](#), Nikko NZ see this as being a unique advantage.

Nikko NZ, through Nikko AM, believe in strong [governance](#) frameworks, leveraging its global resources to deliver best in class systems, policies and procedures. This extends to dedicated statements on [social responsibility](#). FundSource view corporate citizenship and governance frameworks as extremely important foundations from which a manager starts to engage with the clients' experience, this is overseen by Nikko NZ's Board (that includes two Non-Executive Independent Directors).

Nikko AM NZ manages 14 retail funds:

- Nikko AM Core Equity Fund
- [Nikko AM Concentrated Equity Fund](#)
- Nikko AM Global Share Fund
- Nikko AM Global Equity Unhedged Fund
- Nikko AM Global Equity Hedged Fund
- Nikko AM Cash Fund
- Nikko AM NZ Bond Fund
- Nikko AM NZ Corporate Bond Fund
- Nikko AM Income Fund
- Nikko AM Global Bond Fund
- Nikko AM Option Fund
- Nikko AM Conservative Fund
- Nikko AM Balanced Fund
- Nikko AM Growth Fund

The funds are managed by a team of seven investment professionals, [four](#) being dedicated equity strategies and [three](#) to fixed income strategies. The multi manager global equities strategy is a multi-manager approach, managed by a Sydney based specialist team. The global shares strategy is a single-manager approach, managed by an Edinburgh based specialist team. Goldman Sachs Asset Management is the appointed global fixed income manager, while JP Morgan Alternative Asset Management are the appointed alternatives manager. As the global equity, bond and alternatives funds are managed by either external Nikko teams or external managers, for the number of funds being managed the team is adequately resourced.

## 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 Nikko AM Global Share Fund ("the Fund") is a wholesale unit trust that invests predominantly into globally listed companies. As such the Fund will generally sit within the growth component of a balanced portfolio, more specifically the equity asset class.

The Fund's objective is to outperform the Fund's benchmark, being the MSCI AC World Index in NZD, by 3%pa over a rolling three year basis before fees.

The Fund is suitable for investors with an investment horizon of more than five years and is subject to equity market risk and movements (both positive and negative). Currency is not hedged and the Fund will experience the effects of currency movements, based on where companies are listed. Accordingly, capital losses can be incurred.

The Fund is a NZD denominated Portfolio Investment Entity (PIE) that may enter into derivative contracts to manage market risks. The Fund does not currently distribute income or capital gains. Any income or capital gains will be included in the unit price calculated for these funds.

Question	What the Manager says	What FundSource thinks																								
<p>What are the Manager's assets under management - in total and in this Fund?</p>	<p>Nikko AM NZ is solely in the business of investment management. Nikko AM NZ actively manages NZ\$5.5 billion of investments for corporate superannuation schemes, community trusts, charitable trusts, foundations, financial planners, banks, insurance companies, KiwiSaver Schemes, corporations, other fund managers and retail investors.</p> <p>Retail Funds Under Management (FUM), as at 30 November 2018:</p> <table border="0"> <tr> <td>Core Equity</td> <td style="text-align: right;">\$ 22.5M</td> </tr> <tr> <td>Concentrated Equity</td> <td style="text-align: right;">\$ 53.8M</td> </tr> <tr> <td>Global Equity Unhedged</td> <td style="text-align: right;">\$ 111.25M</td> </tr> <tr> <td>Global Equity Hedged</td> <td style="text-align: right;">\$ 48.29M</td> </tr> <tr> <td>Global Shares</td> <td style="text-align: right;">\$ 0.66M</td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">\$ 99.46M</td> </tr> <tr> <td>NZ Bond</td> <td style="text-align: right;">\$ 51.34M</td> </tr> <tr> <td>NZ Corporate Bond</td> <td style="text-align: right;">\$ 117.17M</td> </tr> <tr> <td>Income</td> <td style="text-align: right;">\$ 13.74M</td> </tr> <tr> <td>Global Bond</td> <td style="text-align: right;">\$ 23.05M</td> </tr> <tr> <td><b>Total FUM</b></td> <td style="text-align: right;"><b>\$5,500.0M</b></td> </tr> <tr> <td><b>(Retail + other)</b></td> <td></td> </tr> </table>	Core Equity	\$ 22.5M	Concentrated Equity	\$ 53.8M	Global Equity Unhedged	\$ 111.25M	Global Equity Hedged	\$ 48.29M	Global Shares	\$ 0.66M	Cash	\$ 99.46M	NZ Bond	\$ 51.34M	NZ Corporate Bond	\$ 117.17M	Income	\$ 13.74M	Global Bond	\$ 23.05M	<b>Total FUM</b>	<b>\$5,500.0M</b>	<b>(Retail + other)</b>		<p>Nikko Asset Management New Zealand is one of the larger fund manager's in New Zealand. For the types and number of strategies the business has significant total funds under management. Nikko has continued to expand its product suite, which has expanded to include a KiwiSaver scheme, and diversified retail funds.</p> <p>The Global Shares Fund commenced in August 2017, and as at 30 November 2018, has \$81.6 million of wholesale and retail money invested. The retail component accounts for \$660,000.</p>
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<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>The Global Equity Investment Team was formed in 2011 with a group of portfolio managers with extensive experience managing multi-geography portfolios at a variety of long established asset managers. The team implemented this strategy successfully for 3 years at their previous firm, Scottish Widows Investment Partnership, then joining Nikko Asset Management in 2014 with the portfolio managers being based in a newly established office in Edinburgh by Nikko. The team joined Nikko with their track record and all research and IP from the prior firm.</p> <p>The Global Equity investment team fundamentally believes in a team-based approach to investing and decision making, and all team members have dual role portfolio manager and analyst responsibilities.</p> <p>Each are responsible for research and stock picking, with research responsibilities allocated on a sector basis. William Low is the head of the team, but all team members work collectively together on an equal basis to debate, review and construct client portfolios. This is based on the premise that collective opinion offers a stronger source of return and more robust risk monitoring than a single decision maker alone. This flat investment structure and investment process has been in place since the team's formation.</p>	<p>The Edinburgh based Global Equity investment team is comprised of five dual role portfolio managers/analysts, with an average industry experience of 20 years. The team was created and is led by Low. FundSource notes this is a relatively small team, which doesn't afford a typical PM/analyst relationship, hence the flat structure is viewed positively. James Kinghorn, Iain Fulton, Greig Bryson, Johnny Russell, and Low have all worked together since 2011, moving to Nikko in 2014.</p> <p>FundSource notes from a New Zealand perspective this is a new fund. However, it is important to note this Fund leverages a strategy and team, that have in most cases, worked together for over seven years.</p> <p>For the number of securities in the portfolio, FundSource believes the team size is adequate. The Edinburgh based investment team can leverage the broader Nikko global investment platform, spread across 12 countries. This is particularly useful considering this Fund can invest in listed companies in any country. FundSource believes the depth and breadth of resources for this fund as being adequate.</p> <p>Jeremy Hall joined the team in August 2017 and has since departed. This is disappointing and highlights some potential issues the core team have with external investment personnel.</p> <p>More information on the parent strategy and investment personnel can be found <a href="#">here</a> and specifically for the PIE fund <a href="#">here</a>.</p>																								

<p>What objective is the Manager trying to achieve?</p>	<p>The strategy aims to achieve capital growth over the long term, with total returns (before fees), 3% above the benchmark over rolling three-year periods. The ex-ante tracking error for the strategy is expected to be between 3-8% per annum.</p> <p>The Global Equity Strategy does not employ a benchmark for investment management decisions. The MSCI AC World Index is used as a reference index for risk management and performance measurement purposes.</p>	<p>The Manager is one of the few fund managers in New Zealand to specify an expected return, above the Funds benchmark, the MSCI AC World Index. FundSource believes this provides investors with a quantifiable expectation, and make informed decisions, with respect to the Fund's performance. FundSource views this positively.</p> <p>FundSource notes that the Manager reports performance in its <a href="#">Factsheets</a> and their website before tax, and after fees and expenses. This is also available on the <a href="#">Disclose site</a> and <a href="#">FundSource</a> website.</p> <p>As a PIE structure the Fund has too short track record for any meaningful evaluation on its ability to meet its stated objective. This is also the case for the Fund in its wholesale strategy and UK parent strategy.</p>
<p>What does the Manager invest your money into?</p>	<p>The Global Equity Team invests in listed equities in developed and emerging markets. To ensure portfolios are liquid, the team invests in stocks with a minimum market capitalisation of at least USD 1 billion and a daily trading minimum volume of approximately USD 10 million.</p> <p>The criteria above results in a broad investment universe of approximately 5,000 stocks, however only a fraction of this universe will meet our Future Quality criteria.</p> <p>Future Quality companies are those who will attain and sustain high returns on investment and will generate superior performance over the long term. The team seeks companies which meet this Future Quality criteria and creates high conviction portfolios of 40-50 stocks with a high active share ratio of typically between 90%-95%.</p>	<p>The Fund aims to provide investors with exposure, primarily, to globally listed companies, in a reasonably concentrated portfolio of 40-50 listed companies. The Manager is an active manager, that are identified using the Manager's Future Quality based process.</p> <p>Future Quality is based around the Manager's fundamental research to produce insight and conviction in companies. Companies held in the portfolio should offer value through the cycle, have sustainable high quality returns, and the Manager expects them to grow.</p> <p>Active share is a measure of the percentage of portfolio holdings that differ from the from the reference benchmark. The higher the number the greater the difference. FundSource believes this also signifies investors should expect performance to potentially vary significantly from the benchmark.</p> <p>Investors in the Fund should have a minimum investment horizon of at least five years. Over shorter periods, there is potential for the fund to fall materially in value.</p>
<p>What are the inherent risks imbedded in the Fund?</p>	<p>The investment team attempts to mitigate portfolio risk via a rigorous research, consensus driven bottom-up process. In addition to stress testing at the security level, a regular risk review meeting to discuss output from the risk model is used to ensure that the bulk of the portfolio risk is driven by stock selection and that portfolio volatility relative to its benchmark is within agreed boundaries. To ensure unintended style biases do not occur within the portfolio, we use third party software to analyse such biases. These and additional proprietary tools are used to analyse and optimise how we spend the risk budget' in the portfolio.</p> <p>Disciplined and controlled risk management is crucial to the group's</p>	<p>The Manager has a structured approach to managing risks in the portfolio, and has highlighted a series of risks they are mindful of when constructing and managing the portfolio. Appropriate tools are used to assist in managing [portfolio risks, both pre and post trade.</p> <p>All members conduct research and contribute ideas to the portfolio. The small team allows a consensus approach to be used, in which all investment personnel own portfolio outcomes. FundSource believes this structured approach helps to mitigate key person risk.</p> <p>The Manager doesn't rely on macro inputs, but ensures they are considered as a part of the investment process. Research is</p>

	<p>success. Nikko AM closely monitors market, credit, operational and portfolio management risk and takes appropriate measures to minimise the impact of potential risk.</p> <p>Nikko AM uses Bloomberg AIMS (“AIMS”) as its portfolio management system and its principal risk management tool at a front office level. AIMS forms an integral part of the portfolio management process and provides the sufficient mechanisms needed for Nikko AM to manage a portfolio, improve compliance, investment risk and lower operational risk.</p> <p>Portfolios are monitored on a daily basis to ensure compliance with risk and investment guidelines. Deviations from strategy guidelines trigger portfolio rebalancing, to ensure constraints and parameters are maintained.</p>	<p>predominantly internally generated, and ideas are debated at regular weekly and monthly meetings, as well as ad-hoc.</p> <p>The Manager’s Future Quality based decision making process is not easy to define, the Manager describes it as a business that can generate sustained growth in cash flow and high and improving returns on invested capital at attractive valuations, over a full business cycle.</p>
<p>Why do they believe the future prices of the Fund’s investments will vary?</p>	<p>The Global Equity Strategy is an actively managed equity strategy with a high active share ratio. The future performance of the strategy will largely be driven by the stock selection decisions made by the team. These decisions result from the strong fundamental research process the team performs. In addition, future prices will be influenced by the general direction of the overall global equities market.</p>	<p>The Manager aims to hold 40-50 companies in the portfolio. FundSource considers this to be quite a concentrated portfolio, but provides sufficient stock diversity to ensure the Fund does not become overly concentrated in any one sector or company.</p> <p>The Manager’s ability to accurately determine the intrinsic value of company becomes integral to the decisions made. This is based on the Manager’s research, which in turn, carries a qualitative assessment of a company’s management and board. The subjective elements will be integral to the Funds’ performance, compared to its benchmark and peers.</p> <p>FundSource notes that the Manager maintains a strong program of company contact and the formal weekly investment team meetings, which should assist in mitigating below benchmark performance.</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>Under the leadership William Low, the team has fostered a dynamic culture that serves as a platform for ongoing success. The team has a high level of experience and skill with Nikko AM, providing best in class infrastructure and operational resources. Under William’s leadership the team has built a strong track record compared to peers and the benchmark. Over the past 3 years the Global Shares Fund has returned 2.59% p.a.* above the Index.</p> <p>*Note all performance data quoted is Gross Returns</p>	<p>FundSource believes that the Manager’s commitment to sustainable investing, environment, social and governance (ESG), is a positive step that many managers are moving toward. Nikko Asset Management is an early adopter of this global framework and has embedded it in to its global operations.</p> <p>The Fund’s performance history as a PIE structure is too short for any meaningful evaluation of performance and risk measures.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>The philosophy is centred on the search for ‘Future Quality’ in a company. Future Quality companies are those which will attain and sustain high returns on investment.</p> <p>The four pillars used to assess the Future Quality characteristics of an investment are as follows:</p>	<p>The Manager typically takes a long-term view of companies held in the portfolio. Companies are typically bought and sold when the valuation is below the Manager’s calculated Future Quality.</p> <p>The Manager has a very clear set of characteristics that underpin the assessment of Future Quality. Adherence</p>

	<p>Franchise – does the company have a sustainable competitive advantage period?  Management – does the company make sound strategic and capital allocation decisions?  Balance Sheet – growth is appropriately financed?  Valuation – are the company’s prospects under-appreciated by the market?  ESG considerations are also integral to Future Quality investing. The Global Equity team believes that investing in Future Quality companies will lead to outperformance over the full market cycle.</p> <p>When a company meets/no longer meets our 4 Pillars of Future Quality criteria - the stock is sold. Changes to the Future Quality thesis are reflected in our Stock Raking Tool scores.</p> <p>When a stock has reached fair value, it will be reappraised. If there has been no change to its fundamentals, and the team confirms that it has indeed achieved fair value, this will be reflected in the team’s Ranking Tool and subsequently the stock would be sold in order to make way for a better opportunity.</p> <p>A fundamental change to a company’s Franchise, Management or Balance Sheet will also lead to a review. Anything from an adjustment in management to an unexpected change in its operating environment will be reflected in the conviction score within the Stock Ranking Tool. This could result in a reduction or the disposal of the company.</p> <p>The strategy is only comprised of highly liquid stocks and under normal market conditions 95% of the portfolio could be liquidated within one day.</p>	<p>from these characteristics are expected to lead to a company being added to the full research coverage list, and potentially the portfolio. Deviation away from these characteristics will lead to a company being removed from the portfolio, and potentially from the list of 100-150 companies that are fully researched.</p> <p>Ultimately this leads to companies being sold when valuations rise to or above the Manager’s calculated fair value. The Manager’s fair valuation calculations are not a one-off calculation. As new information comes to market, the intrinsic valuation calculations are revised, positively or negatively. This can lead to increasing the portfolio size, reducing the portfolio size, buying or selling a company. This all contributes to turnover. This includes changes in the balance sheet of a company. While many managers will take account of the balance, this Fund has it explicitly embedded as a key criteria in determining Future Quality.</p> <p>The Fund is not required to be invested in all sectors, however, the Manager does give consideration to the composition of the MSCI AC World Index. The investment team’s weekly meeting is a key to the initial evaluation process, with quantitative screening identifying companies for further investigation. A proprietary model scores and ranks companies using a consistently applied eight factor model. From here analysts will undertake fundamental research.</p>
<p>Has the CIO personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>Members of the Global Equity team have invested their own money in the Global Equity strategy, however, it is company policy not to disclose the details to third parties.</p> <p>For Nikko AM investment managers a substantial part of the remuneration package is attributable both to investment performance and company performance.</p> <p>Long Term Incentive (“LTI”): Nikko AM recognizes that clients prefer long term retention of key investment staff, which is typically reflected in this industry by incentivizing and rewarding investment teams for the long term growth of AUM in their product, based on successful long term investment performance. This creates alignment of interest between investment team, Nikko AM, clients and shareholders.</p>	<p>FundSource believes that managers should ‘eat their own cooking’. Correspondingly, 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>FundSource notes that while the investment team have invested in the Fund, it is not the PIE version, rather they have invested via the parent strategy.</p> <p>FundSource believes greater alignment is achieved when long term incentives</p>
<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>The Global Equity Strategy does not employ a benchmark for investment management decisions. The MSCI AC World Index is used as a reference index</p>	<p>FundSource believes the Fund to be quite concentrated, at 40-50 holdings. The Manager selects the portfolio holdings from the 100-150 companies the Manager fully</p>

	<p>for risk management and performance measurement purposes. Key characteristics of the strategy are summarised as below:</p> <p>Style: Growth &amp; Quality          Number of Holding: 40-50 stocks          Stock Active Weights: 1-5%          Active Share: Typically 90-95%          Target Return: 3%+ per annum          Current Annual Portfolio Turnover*: 50%</p> <p>The portfolio's sector positions are typically restricted to +/-20% relative to the sector weights of the benchmark. Country weights are primarily a result of security selection and are typically restricted to +/-20% to the benchmark weight.</p> <table border="0"> <tr> <td>Tracking Error</td> <td>3% to 8%</td> </tr> <tr> <td>Cash Allocation:</td> <td>0% to 5%</td> </tr> <tr> <td>International Equities</td> <td>95% to 100%</td> </tr> <tr> <td>Single Security Shares:</td> <td>Max 10%*</td> </tr> <tr> <td>Emerging Markets:</td> <td>Index +10%</td> </tr> <tr> <td>Hedging:</td> <td>0%</td> </tr> </table> <p>*Maximum of 5% of total shares on issue, or 10% of the Fund's value, for any one company.</p>	Tracking Error	3% to 8%	Cash Allocation:	0% to 5%	International Equities	95% to 100%	Single Security Shares:	Max 10%*	Emerging Markets:	Index +10%	Hedging:	0%	<p>researches. This allows the Manager to have significant positions in a company, compared to the reference benchmark. And achieve this in a risk managed approach by restricting the exposure to any one security.</p> <p>FundSource notes that the top 10 holdings in the fund regularly represents &lt;50% of the Fund's net asset value. FundSource highlights the Fund units are in NZD, however, the Fund is unhedged and the impact of non NZD currencies are likely to impact performance, both positively and negatively.</p> <p>FundSource notes the Fund is prohibited from investing in any managed investment scheme that is not a PIE, this includes Exchange Traded Funds and Master Limited Partnerships, however Real Estate Investment Trusts are permitted as authorised investments.</p>
Tracking Error	3% to 8%													
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Emerging Markets:	Index +10%													
Hedging:	0%													
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>Relative to similar actively managed offerings in the market the Nikko AM Global Share Fund has a lower total fee offering strong value for money. Investing in the Nikko AM Global Shares Fund provides investors access to an experienced well-resourced team with a strong track record of outperforming the benchmark.</p>	<p>FundSource believes the Manager is transparent from a fees perspective, noting the administration and underlying manager fees are disclosed in the <a href="#">Product Disclosure Statement</a>, and <a href="#">Disclose</a> website.</p> <p>FundSource notes that the Manager's Basic Fee, of 0.95%, is lower than the average fee, of the 155 peer funds in the FE Analytics NZMI Equity Global sector. FundSource highlights that the Manager caps the operating expense fee of 0.25%.</p> <p>FundSource notes the Manager does not charge a performance fee for this Fund.</p>												
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>To maintain high levels of risk management, Nikko AM's London and Edinburgh offices have in place an independent Risk Management team. The Risk Management department is independent from the investment management function and reports into the Global Head of Risk Management and Chief Risk Officer.</p> <p>To ensure that we do not take on any unintended style biases within the portfolio, we use third party software to analyse such biases. The key tools employed are:</p> <p>Barra Risk Model: Outputs from this model include key risk statistics such as predicted tracking error, beta, volatility and a full risk decomposition of each portfolio at an asset level</p> <ul style="list-style-type: none"> <li>On-desk tools such as FactSet and Bloomberg are used daily to assess the standalone style characteristics of stocks as well as sector and country positions</li> </ul>	<p>The Manager has a strong governance and compliance framework. The Manager's governance and compliance systems and personnel are separated from the investment team functions. The localised team have direct reporting lines to respective Global Heads. The Manager's commitment to compliance and governance can be viewed <a href="#">here</a>.</p> <p>Nikko Asset Management became a signatory to the UN PRI in 2007, and believes that environment, social and governance underpin sustainable responsible investing, which can be viewed <a href="#">here</a>.</p> <p>FundSource notes that Nikko Asset Management NZ has appointed Tracey Berry as an independent non-executive director. This extends Nikko's commitment to stronger cooperate governance. FundSource has not met with Berry but is aware of her financial services background. FundSource commends Nikko</p>												

	<ul style="list-style-type: none"> <li>• Pre-trade analysis in FactSet and Barra is used both by the portfolio management team and portfolio risk team to highlight the impact of proposed changes on portfolio risk.</li> <li>• The strategy doesn't use leverage</li> </ul> <p>At Nikko AM, the Compliance Department is responsible for reviewing and monitoring portfolios for post-trade adherence to regulatory, fund prospectus and/or client mandate requirements, overseeing portfolios' transactions for fair allocation, best execution and non-excessive turnover, as well as highlighting to local management and Head Office on any operational issues identified for resolution.</p> <p>Nikko AME uses the Bloomberg Asset and Investment Manager System ("AIMS") as our trade order generation and execution management platform and within the AIMS environment, the Compliance Department uses its CMGR module as a tool to aid our portfolio manager in their pre-trade compliance checks before they are allowed to send any orders for execution. To the extent that it is feasible and subject to AIMS capability, investment guidelines and restrictions ("IG/R") are coded into the CMGR module by the Compliance Department.</p>	<p>for improving the diversity of its New Zealand directors.</p> <p>FundSource views formal Investment Committees positively. The Manager's Investment Committee is responsible for ensuring that investment mandates, and Statements of Investment Policy and Objectives (SIPO), are adhered to. The Investment Committee is not involved in day to day portfolio investment decisions.</p> <p>FundSource is impressed by Nikko's approach to growing its business globally and embedding strong investment and corporate governance principles. This has resulted in organic growth, acquisition of fund management businesses, and investment teams.</p>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>The key focus for team incentives is the alignment of individual incentives with the long term performance of clients. This involves both the stability of the team through retention and the delivery of alpha in line with client objectives.</p> <p>Team members are reviewed on an annual basis quantitatively and qualitatively for the performance of portfolios managed by the team and on their individual contribution to both the team and company overall. Performance over the longer term is the primary focus, to ensure that the behaviours match the longer term timescale of client objectives.</p> <p>More specifically each team member is on a fixed salary with a variable bonus component, based on the performance criteria outlined above, as well as the profitability of the company as a whole. The company's basic policy on remuneration and performance appraisal is to provide transparency and accountability to both employees and management. The compensation structure is based on a skills matrix and the market value of each professional.</p> <p>The Global Equity Investment team is further incentivised by a direct share of revenue that they generate above the minimum cost to the business, and vests on a rolling three year basis in the Global Equity fund managed by the team. This encourages the ongoing stability of the team and provides a clear incentive to deliver outstanding returns for our clients.</p>	<p>To preserve capital and generate a long-term positive return for investors, the Manager must remain operational. The Manager has significant funds under management, which has grown over time. Being a wholly owned subsidiary of a global company headquartered in Japan can come with risk. However, since acquiring Tyndall, Nikko Asset Management has strengthened its commitment to New Zealand, adding new resources to the local team, adding new teams to its global operations, and is in the process of addressing independence across the Board, and the use of non-executive across governance and committees.</p> <p>FundSource highlights that the corporate alignment and remuneration of investment personnel is in line with large corporates. The investment team being invested in the products they are responsible is seen as being the strongest link to an investor experience and is viewed positively.</p> <p>FundSource believes the profit sharing could be better aligned to investors by employing a vesting period, where those incentives are invested in the Fund for a minimum period. This offers a stronger alignment between business outcomes and investor outcomes.</p>

## Conclusion and Rating

The Fund provides an investor with exposure to a reasonably concentrated global equity portfolio that is focused on globally listed companies, including companies listed in emerging markets. The Manager is aware of the benchmark but does not manage the fund to the benchmark. The Fund is reasonably diverse, however, can have large sector allocations.

FundSource notes that the Fund states an expected outperformance, above the Fund's benchmark. FundSource notes this is one of the few NZ PIE funds that sets an outperformance expectation. FundSource views this positively and views this as a benchmark for other fund managers to consider.

FundSource's conviction in the Manager is underpinned by several factors which FundSource expects will contribute positively to an investor experience. The investment team, in its current form, was successfully uplifted from another fund manager, in 2014. However, team turnover needs to be addressed, and should include consideration to succession planning in the future. The investment team can leverage resources around the Nikko group, particularly for macro inputs and additional analysis and insights for global

companies. Risk management, compliance and governance oversight is very strong, and embedded in to the culture of Nikko NZ. Nikko AM is well resourced globally, and the investment teams can, and do, communicate ideas. There is a good mix of local expertise to make global capabilities available to New Zealand investors. Domestically, the appointment of additional non-executive directors to Nikko NZ, and continuing to bring independent views diversity to the Nikko NZ board is viewed very favourably.

The Manager's basic fee is well below the peer average in the FE Analytics NZMI Equity Global sector. This remains the case when other management and administration expenses are charged. FundSource highlights the Manager caps its administration fees for all funds.

FundSource recommends that investors carefully consider that the Managers benchmark aware focused global relatively high conviction approach to managing global 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%	4.00 / 5
Investment Philosophy & Process	20%	3.80 / 5
People	25%	3.00 / 5
Portfolio Construction & Implementation	15%	3.50 / 5
Risk Management	15%	4.40 / 5
Investment Fees	10%	3.57 / 5

Overall Average Score: **3.65 / 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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