



Qualitative Fund Research

Nikko AM Option Fund

January 2019



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 [Executive Chairman](#).

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 New Zealand funds are managed by a team of seven investment professionals, [four](#) being dedicated equity strategies and [three](#) to fixed income strategies. The global equities strategy is a multi-manager approach, managed by a Sydney based specialist team and the global shares strategy is a single-manager approach, managed by the Nikko AM team based in Edinburgh. Goldman Sachs Asset Management is the appointed global fixed income 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 Option Fund ("the Fund") is a retail Fund that invests in to the Nikko AM Wholesale Option Fund. In both cases the Fund sells short term options to financial institutions on long term bonds issued by Governments. As such the Fund will generally sit within the defensive component of a balanced portfolio, more specifically the fixed interest asset class.

The Fund is subject to fixed interest market risk and movements (both positive and negative), from a global government perspective. The risks and

rewards are increased by the use of options, which introduce leverage in to the Fund. Leverage can improve positive performance, as well as magnify losses. The Fund may experience periods of negative returns, and there is a risk of potential capital loss being incurred on their investment. The Fund may enter into other derivative contracts, this is to primarily manage market risks. **Due to the Fund's complexity FundSource believes this is best suited to experienced investors only who have a minimum investment time horizon of more than three years.**

The Fund is an NZD denominated Portfolio Investment Entity (PIE). The Fund does not currently distribute income or capital gains. Any income or capital gains will be included in the unit price calculated for the Fund.

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 through platforms.</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>Option Fund</td> <td style="text-align: right;">\$ 0.07M</td> </tr> <tr> <td>Total FUM</td> <td style="text-align: right;">\$5,500.0M</td> </tr> <tr> <td>(Retail + other)</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	Option Fund	\$ 0.07M	Total FUM	\$5,500.0M	(Retail + other)		<p>Nikko Asset Management New Zealand is one of the larger fund managers in New Zealand. For the types of strategies, and number or strategies the business has significant total funds under management.</p> <p>The Option Fund commenced in October 2007 as a wholesale strategy. The Retail version of the wholesale strategy commenced in April 2018. As at 30 November 2018, fund has \$70,680.23 retail money invested. Overall, including wholesale investments the FUM accounts for \$77.6m million.</p>
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<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>Fergus McDonald is responsible for the investment strategy, performance and compliance of Bond, Cash and Currency mandates. Fergus has been actively involved in the New Zealand financial markets since 1981. He joined the company in 1990 as the Fixed Interest Manager. Fergus has considerable experience in managing bond portfolios that combine Government stock and derivatives with corporate debt securities. He was instrumental in developing and managing New Zealand's first corporate bond unit trust. Fergus holds a BA Economics, Victoria University and Certificate of Treasury Professionals.</p> <p>The Nikko AM New Zealand fixed interest team comprises of Fergus McDonald (Head of Bonds and Currency), Ian Bellew (Fixed income Manager) and Matthew Johnson (Fixed income Manager) and has as a team average over 21 years' experience. All members of the team have research and recommendation responsibilities.</p>	<p>McDonald has held the role of Portfolio Manager (PM) for this Fund since its inception, having joined the Manager in 1990 as a Fixed Interest Manager. With over 36 years' experience McDonald has held portfolio management and analyst responsibilities, and has a broad knowledge across Government stock, derivatives, and debt securities, for both benchmark aware and high conviction uncorrelated funds.</p> <p>McDonald is supported by Bellew, who is responsible for the implementation of the investment strategy and day to day management of the fixed income and option funds. Bellew has over 20 years' industry experience and manager tenure. Tim O'Loan departed from Nikko in June 2018. O'Loan held the role of Fixed Income Analyst since 2012. While this is disappointing McDonald and Bellew are considered key people to the operation of the Nikko fixed income portfolios. FundSource notes that Matthew Johnson has re-joined Nikko, he previously worked in the equities team, but has re-joined Nikko in October 2018, as a member of the fixed interest team. The relatively swift response and ability to attract someone who is familiar with the culture at Nikko is viewed positively, albeit in a fixed interest capacity, rather than equities.</p> <p>The New Zealand based investment team can leverage the broader Nikko global investment platform, spread across 11 countries. FundSource doesn't believe the broader Nikko team will significantly influence this Fund significantly, mostly due to the localised focus of the Fund. FundSource believes the depth and</p>																										

		breadth of resources in the Nikko Fixed Interest team to be extremely strong.
What objective is the Manager trying to achieve?	<p>The Fund aims to outperform the Bloomberg NZ Bond Bank Bill Index plus 4% per annum over a rolling three-year period before fees, expenses and taxes.</p>	<p>The Fund uses a leveraged strategy to enhance a regular income stream. The Manager has clearly stated the targeted return an investor can expect, compared to the Bloomberg NZBond Bank Bill Index. Clarity around the performance expectation is often less clear in the New Zealand market.</p> <p>The Fund aims to be invested in securities issued by New Zealand registered banks, with a maximum maturity of three years and one month. The Fixed Income team believes that the purpose of this part of the portfolio is to preserve the income received from selling options.</p> <p>FundSource notes that the Manager reports performance in its Factsheets and their website before tax, and after fees and expenses. Further performance data is available via the Disclose website and FundSource.</p>
What does the Manager invest your money into?	<p>The Fund invests in an underlying fund that invests in cash and fixed interest investments, and undertakes a leveraged trading strategy based on selling options on global government bonds.</p> <p>The Fund is a specialist investment strategy and is suitable only for experienced investors who have an investment time frame of three years or longer and are comfortable to accept short sharp periods of high volatility.</p> <p>The options are sold in pairs, each comprising a call and a put option with the same expiry date.</p>	<p>The Manager will construct the portfolio from a set of authorised investments that aims to outperform the Fund's benchmark return over a rolling three-year period before fees. The Fund specifically invests in cash and fixed interest investments, and undertakes a leveraged trading strategy based on selling put and call options over global government bonds. The Government bonds must meet a minimum credit rating of AA-.</p> <p>This Fund leverages the security selection process that are employed by the other Nikko fixed interest funds. This is structured on a top down macro-focused process, from which a set of core fixed interest rate based assumption will drive the Manager's views on Government bond quality. The Fund will then look to sell call and put options, creating leverage in the portfolio. The Options will earn a premium, which drives the enhanced income return. There are periods in a market cycle where heightened volatility can occur.</p> <p>To assist in managing portfolio risk, the Fund has established a set of restrictions the investment team must meet.</p> <p>Investors should be aware the retail Fund invest in to the Nikko AM Wholesale Option Fund. This is not unusual, as the objectives of each fund are similar, however where a difference may occur, the Manager must adhere to the retail Funds mandate, as outlined in the Fund's Statement of Investment Policy and Objectives (SIPO).</p>
What are the inherent risks imbedded in the Fund?	Investing in the fund has some general investment risks which are covered in the Option Funds PDS - being Market Risk, Company Specific Risk, Liquidity Risk and Currency Risk.	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.

	<p>In addition to these general risks, the Nikko AM Option Fund uses a leveraged investment strategy to simultaneously sell call and put options on long-dated government bonds.</p> <p>When this strategy is implemented, there is the additional risk of short-term losses due to extreme movements in long-term interest rates, whereby losses are magnified by the use of leverage.</p> <p>This has the potential to negatively impact the performance of the Fund. The Fund is therefore regarded as a specialist investment strategy and we believe it is suitable only for experienced investors who are comfortable to accept short periods of sharp volatility and are investing over a period of three years or longer.</p>	<p>The Manager doesn't rely on external inputs, such as broker reports and recommendations. Rather all research is created internally, and ideas are debated at regular weekly and monthly meetings, as well as ad-hoc. All members provide input in to the Manager's fixed interest investment products. FundSource believes this approach helps to mitigate key person risk.</p>
<p>Why do they believe the future prices of the Fund's investments will vary?</p>	<p>The Option Fund is an actively managed leveraged trading strategy based on selling options on global government bonds. The fund sells options and invests in cash and cash equivalents, New Zealand fixed interest and international.</p> <p>Options are sold on long term bonds issued by Governments with a minimum credit rating of AA-.</p>	<p>The Fund employs top-down analysis, to determine its view on New Zealand, Australian, and US Government bonds, over which the put and call options should be written over.</p> <p>Short term movements in Government bonds will determine if the options are exercised or not. Both call and put options give the holder the right, but not the obligation, to buy or sell an underlying security at a fixed price. Should the holder choose to enforce their right under the terms of the contract, they are said to be exercising their option.</p> <p>When market movements occur only a call or put option can be exercised. The market cannot be in two places at once. Therefore, only a call or put option can be exercised on any one contract. This means the Manager's use of strangles, selling call and put options in pairs is key to minimising downside risk.</p> <p>Changes in Government credit quality and/or interest rates of that country are the likely contributors to options moving from out of the money, to in the money. Options moving to in the money allows the options holder the ability to exercise their right, at their discretion.</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 of Fergus McDonald, 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.</p> <p>The team has built a strong track record vs. peers and the benchmark. Since inception, the Option Fund has returned 11.64% p.a.* which is higher than the benchmark target return.</p> <p>When comparing the fund's returns to equity and fixed interest fund returns, the Option Fund has outperformed a typical</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 the New Zealand operations.</p> <p>The retail version of this strategy has a track record that is too short to draw any meaningful conclusions from. That being said, the wholesale fund has a track record extending back to 2007. This includes through the Global Financial Crisis (GFC). Compared to the 35 peer funds in the FE Analytics NZMI Fixed Interest New</p>

	<p>fixed interest fund and is competitive with equity funds.</p> <p>The annualised return of 11.64% p.a. since inception of the Option Fund strategy in 2003, means the fund has outperformed the S&P/NZX 50 Index in the same period. In addition, as returns are lowly correlated to equity and fixed interest returns, the Option Fund can add additional return generators to a portfolio.</p> <p>*Note all performance data quoted is Gross Returns as at 30 September 2018.</p>	<p>Zealand sector, the Fund performance has been well above the sector average.</p> <p>FundSource highlights there have been periods of strong outperformance. However, potential investors should take account to the sharp periods of negative performance. This highlights the Fund can be volatile and drawdowns can be significant. Investors who cannot accommodate potential significant and sharp downturns should refrain from investing. FundSource believes the risk is appropriately rewarded, for investors that accept volatility.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>The value of an investment in the Fund will be impacted by any change in the value of the assets of the Fund which is reflected in the unit price of the Fund.</p> <p>The overarching principle of the process is to construct an actively managed investment portfolio generating income streams from interest earned on bank deposits and bonds and premium income from selling short term options on international Government bonds to financial institutions.</p> <p>The Fund writes out of the money put and call options typically on US 10 year Treasury Bonds. The options are sold in pairs, each comprising a call and a put option with the same expiry date. The options have a pre-determined maturity, this is typically less than 60 days.</p> <p>Because the Fund is writing options on low-risk Government debt and under normal market conditions the probability of exercise is relatively low, the exposure is leveraged to gain more income. For every \$1 in the fund, up to \$6 of call options and \$6 of put options can be sold. Accordingly, the effective leverage of the fund is 6 times the value of the fund.</p>	<p>The Manager takes a low risk approach to New Zealand fixed interest, which is reflective of McDonald's conservative approach to the domestic market. Having a conservative approach is considered a strong requirement when employing a highly leveraged strategy.</p> <p>The Fund expects options to be maturing most business days; accordingly, the Fund is in a continual process of writing options, when there is sufficient cash to warrant writing the next set of options. Short term changes in Government bond yields represent the greatest risk.</p> <p>The Manager only writes European Options, which can only be exercised on the expiration date. This ensures the Fund can manage the maturity dates of each of its options, rather than being exercised any time prior to the expiration date, as is the case of American options.</p> <p>Risks and investment characteristics that would typically drive buy and sell decision such as credit, duration, and yield risks are not significantly prevalent in this Fund. Typical fixed interest risks are limited to the credit risk of senior bank debt.</p> <p>FundSource highlights the Fund is regarded as a specialist investment strategy and more suited to suitable for experienced investors who are comfortable to accept short periods of sharp volatility and are investing over a period of three years or longer.</p>
<p>Has the CIO personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>Members of the New Zealand Fixed Income team have invested their own money in the Option 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</p>	<p>FundSource believes that managers should 'eat their own cooking'. Correspondingly.</p> <p>FundSource believes that the interests of investment personnel are better aligned to those of the investors when investment personnel are significantly invested, and at the same fees. FundSource believe that the investment team pay the same fees as investors.</p> <p>FundSource notes this Fund is a part of an overall diversified allocation. This implies that the fixed interest investment team may hold investments with other Nikko AM NZ funds. This again aligns the investment</p>

	<p>their product, based on successful long term investment performance. This creates alignment of interest between investment team, Nikko AM, clients and shareholders.</p>	<p>team with investors. FundSource notes that the investment team cannot invest in individual securities. While it is possible to invest in managed fund outside of Nikko, FundSource highlights this hasn't happened to date. The investment team have invested in Nikko funds only.</p>
<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>The Option Fund's Benchmark is the Bloomberg NZ Bond Bank Bill Index. The Fund holds short-dated securities and options.</p> <p>Tracking Error: n/a Cash on Call: 0% to 5% Wholesale Option Fund: 95% to 100%</p>	<p>The Fund primarily invests via options. Accordingly, the Fund is considered a complex investment strategy. The potential for a retail investor to replicate the investment strategy for this Fund is limited.</p> <p>The asset allocation of this Fund is not expected to change. The short term nature of the options, which are required expire within 60 days, requires the Fund to be in a constant, almost daily, process of writing new option contracts.</p>
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>Relative to similar actively managed offering in the market the Option Fund offers strong value for money. Investing in the Nikko AM Option Fund provides investors access to an experienced well resources team with a strong track record of outperforming both peers and the benchmark over the medium term.</p>	<p>The Manager discloses all fees in the in the Product Disclosure Statement, and the Disclose website.</p> <p>FundSource note that the Manager's basic fee is slightly higher than the average fee, of the 35 peer funds in the FE Analytics NZMI Fixed Interest New Zealand sector. FundSource believes that due to the products complexity, compared to more vanilla fixed interest investments in this FE Analytics sector, the Manager has achieved an outstanding result. This reflects the Manager's commitment to ensuring that fees charged reflect value for money for investors.</p> <p>FundSource highlights that the Manager caps the operating expense fee of 0.25%. Given the complexity of this Fund compared to sector peer funds the fee is not considered to be excessive.</p>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>Nikko AM NZ has a robust globally monitored governance structure, with well-established committees and an experienced, mature Board. Decision making is timely but considered, with a careful process to ensure all relevant information is presented prior to a decision. Decision making authority is clearly set out in a combination of policy and committee charters. All Board and committee meetings are minuted (generally by an internationally qualified company secretary) and records are kept in a central, secure database. Nikko AM NZ views compliance, systems and controls as a critical part of the investment process. The portfolio managers adhere to the mandate rules and risk profile in constructing and managing portfolios. Tim Morrison, Head of Compliance, is responsible for monitoring investment risk, and has a local reporting line to the Managing Director and an offshore reporting line to the Global Head of Investment Risk. The Compliance function also monitors mandate rule compliance on a post-trade basis. The New Zealand Compliance, Risk and</p>	<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 here.</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 here.</p> <p>FundSource notes that Nikko Asset Management NZ has appointed Tracey Jones as an independent non-executive director. FundSource has not met with Jones, but is aware of her financial services background. FundSource commends Nikko for improving the diversity of its New Zealand directors.</p> <p>FundSource views formal Investment Committees positively. The Manager's</p>

	<p>Disclosure Committee has an oversight of portfolio risk. The Tokyo-based Performance and Risk team monitor portfolio risk and have meetings with the New Zealand fixed interest team at least once a month to review/discuss.</p>	<p>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>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>Nikko Asset Management New Zealand Limited is a wholly owned subsidiary of Nikko Asset Management Co., Ltd, which is headquartered in Tokyo, Japan. Nikko Asset Management New Zealand is one of Asia's largest asset managers, providing high-conviction, active fund management across a range of Equity, Fixed Income and Multi-Asset strategies. In addition, our complementary range of passive strategies covers more than 20 indices and includes some of Asia's largest exchange-traded funds (ETFs).</p> <p>Investment personnel are remunerated by way of competitive market based salary, and short and long term incentives.</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.</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 investors experience, and is viewed positively.</p>

Conclusion and Rating

The Fund provides access to a unique, alternative, complex, and leveraged option strategy based product. The fund invests in cash and fixed interest investments and undertakes a leveraged trading strategy based on writing options over global government bonds. This Fund is best suited to experienced retail and wholesale investors who have a minimum investment timeframe of at least three years. FundSource is not aware of any comparable fixed interest fund in New Zealand.

FundSource notes that the Fund states an expected performance of Bloomberg NZ Bond Bank Bill Index plus 4% per annum over a rolling three year, before fees, expenses and taxes, 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 believes other fund managers should consider this approach.

FundSource's conviction in the Manager is underpinned by several, small in isolation, factors which FundSource expects will contribute positively to an investor experience. The investment team has been very stable from a leadership perspective, underpinned by McDonald's and Bellew's significant industry experience and manager tenure. FundSource notes there has been recent turnover in the fixed interest analyst role, although disappointing, the Manager has taken

steps to resolve the departure relatively quickly. The investment team can leverage resources around the Nikko group, particularly for macro inputs, however. The risk management, compliance and governance oversight are 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, blended with strong global oversight. Further appointments of non-executive directors to Nikko NZ improve independent views and continues to add to the diversity to the Nikko NZ board.

The Manager's basic fee is slightly higher than the peer average in the FE Analytics NZMI Fixed Interest New Zealand sector. This remains the case when other management and administration expenses are charged. This is considered a strong outcome, due to the Fund's significantly increased complexity, compared to other sector peer funds.

FundSource believes this Fund is only suited to experienced and confident investors. The Manager employs a complex option strategy which can significantly magnify risks compared, to vanilla fixed interest funds.

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%	3.20 / 5
People	25%	3.00 / 5
Portfolio Construction & Implementation	15%	3.00 / 5
Risk Management	15%	3.60 / 5
Investment Fees	10%	4.14 / 5

Overall Average Score: **3.39 / 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 which have excellent managers, stable senior personnel, a sound track record over a full market cycle, a clearly defined investment philosophy, and a portfolio consistent with that philosophy. The management company will also have established effective control procedures to maintain that philosophy.

AA: Recommended

Funds will have first class, experienced managers, and a sound track record and reasonable stability of senior personnel where the management philosophy must be coherent and consistent with existing portfolios.

A: Investment Grade

This category of funds covers most of the reasonably experienced, competent managers, but often with less stability of personnel than the higher rating trusts.

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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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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