



Qualitative Fund Research

NZAM Kapstream Absolute Return Income Fund

August 2017

About the Manager

[NZAM](#) Funds Limited (the Manager or NZAM) was founded in 1991, being built on the premise that investors who aren't happy risking their capital with the typical investment management approach had little option but to put their money in the bank and accept lower returns. [Kapstream Capital Pty Ltd](#) (the Investment Manager or Kapstream) commenced operation in October 2006, starting with simple belief that focusing on absolute return targets and absolute risk limits can deliver consistent positive returns. NZAM's commitment to absolute return investing has been unrelenting, and has placed the Manager in a rather unique place, from a retail perspective, in the New Zealand market.

NZAM are advocates for strong [corporate governance](#), and actively contributes back to the local communities, available [here](#). Kapstream are long term supporters of domestic and international charities, available [here](#). FundSource Ltd views corporate citizenship and governance frameworks as extremely important foundations from which a manager starts to engage with the clients' experiences.

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 NZAM Kapstream Absolute Return Income Fund ("the Fund") is an 'absolute return', unconstrained international fixed interest product that combines capital preservation techniques with unconstrained portfolio management skills in the pursuit of stable, absolute returns. As such the Fund will generally sit within the defensive component of a balanced portfolio, more specifically the global fixed interest sector.

The Fund has two mandates it looks to deliver for investors. Providing a steady income stream with low volatility, and capital stability across economic cycles.

NZAM manages three funds:

- NZAM Alpha Fund
- NZAM Global Growth Fund
- [NZAM Kapstream Absolute Return Income Fund](#)

NZAM is a 'manager of managers' and has a long track record in selecting managers, with an absolute return focus. In this instance NZAM has more on ground operation responsibilities, providing the Portfolio Investment Entity (PIE) structure to the Kapstream Absolute Return Income Fund Australian Unit Trust (AUT).

NZAM products are managed by a team of [four investment professionals](#), who are generalists focused on manager selection. The [Kapstream team](#) consist of 11 personnel, most of whom have portfolio, research or strategy responsibilities. NZAM's Operations team consists of two people and the executive team comprises six people, averaging 25 years' experience in financial services.

The Fund is subject to market risk and movements (both positive and negative), from investment grade fixed interest securities. The Fund may enter into derivative contracts to manage market risks, such as FX forwards, interest rate derivatives, and credit default swaps. The Fund is suitable for investors with a minimum investment horizon of three years.

The Fund is a Portfolio Investment Entity (PIE) which feeds in to the Kapstream Absolute Return Income Fund, an Australian Unit Trust (AUT). The PIE structure provides greater certainty for New Zealand investors, as opposed to investing in an AUT directly. The fully hedged NZD PIE Fund commenced on 3 April 2017, and has a very limited performance track record. The Kapstream Absolute Return Income Fund AUT, commenced as an AUD unit class in May 2007.

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 December 2016, NZAM (the Manager) had in excess of \$500 million under management. NZAM was initially set up to manage money on behalf of private investors, but over time has branched out to a diverse range of institutional investors.</p> <p>The NZAM Suite of funds, as at 30 June 2017:</p> <table><tr><td>Alpha</td><td>\$37.22m</td></tr><tr><td>Kapstream Absolute Return Income</td><td>\$25.22m</td></tr><tr><td>Global Growth</td><td>\$48.67m</td></tr><tr><td>TOTAL:</td><td>\$111.21m</td></tr></table> <p>As of June 2017, Kapstream had A\$10.7bn under management, broken down as follows:</p> <table><tr><td>Absolute Return Income Fund</td><td>\$5.50b</td></tr><tr><td>Janus Henderson Absolute Return Income Fund</td><td>\$0.1b</td></tr><tr><td>Segregated Absolute Return Portfolios</td><td>\$3.8b</td></tr><tr><td>Segregated Sovereign Bond & Cash Portfolios</td><td>\$1.4b</td></tr><tr><td>Total:</td><td>\$10.7b</td></tr></table>	Alpha	\$37.22m	Kapstream Absolute Return Income	\$25.22m	Global Growth	\$48.67m	TOTAL:	\$111.21m	Absolute Return Income Fund	\$5.50b	Janus Henderson Absolute Return Income Fund	\$0.1b	Segregated Absolute Return Portfolios	\$3.8b	Segregated Sovereign Bond & Cash Portfolios	\$1.4b	Total:	\$10.7b	<p>NZAM has a long track record in managing alternative strategies in the New Zealand market. This has been typically achieved using a multi manager approach, using different managers and funds of focused strategies, from which a portfolio is developed.</p> <p>The NZAM Kapstream Absolute Return Income Fund commenced in April 20017. Despite the short timeframe, the Fund has received relatively strong support in the New Zealand market. This growth will assist in mitigating risks that can occur when starting a new relationship in a single manager fund.</p> <p>From an Australian Unit Trust (AUT) perspective, the Kapstream Absolute Return Income Fund has had strong growth since inception. This is also reflected in the Manager, Kapstream Capital. Since both the Manager and the Fund commenced in in 2007 over \$10.7b has been raised. The strength of the Manager and Fund mitigates risks typically associated with new Funds.</p>
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Who is accountable for managing the Fund, and how long has the investment team worked together?	<p>The lead portfolio manager of the Fund is Steve Goldman (29 years' experience, 7 at Kapstream), supported directly by an investment team of 7 in Sydney and indirectly by an investment team of 6 in Newport Beach, US. The average experience of the whole team is 16 years, and the average tenure at Kapstream 6 years. Goldman has known and worked with the other principals of the Manager, Kumar Palghat and Nick Maroutsos, for 29 years and 16 years respectively.</p>	<p>Goldman commenced with the Investment Manager in 2010, and post the change in ownership from Kapstream to Janus to Janus Henderson, has assumed greater portfolio manager (PM) responsibility, and ultimate responsibility for the Fund.</p> <p>The Investment Manager employs a collegiate approach, with each member of the investment team being responsible for a respective sub component, The input of each individual is highly valued and expected, and is discussed and debated amongst the team, prior to making an investment.</p> <p>Pulghat and Maroutsos, maintain portfolio management responsibilities, and are seen as critical inputs to the Fund. Post ownership changes, commencing in 2015, both have assumed more corporate responsibility as Kapstream was acquired by Janus Capital, which in turn finalised its merger with the Henderson Group in 2017.</p> <p>FundSource notes that prior to 2017 there had only been one investment team departure, Mark Mitchell, who departed after seven years, in 2015. Mitchell held the role of Head of Credit. More recently Bob Sahota, Head of Direct Lending, departed effective from July 2017, after joining in December 2016. FundSource is disappointed by recent staff turnover, but notes this is countered largely by a strong leadership team that has worked together for seven years or more. FundSource would view any further departures as a significant detractor to investing in the Fund.</p>																		

<p>What objective is the Manager trying to achieve?</p>	<p>The Fund has dual objectives, firstly to preserve capital, and secondly to achieve a return of 2-3% above cash. The Fund also aims to limit annualised returns volatility to less than 1.5%.</p>	<p>The Manager views the Fund's performance history is the result of a team based collegiate approach to investing, rather than any one individual. However, FundSource highlights that Goldman is ultimately accountable for the Fund, as the lead PM.</p> <p>The preservation of capital is central to the Investment Managers investment believes, and is heavily embedded in to the decision making process.</p> <p>To achieve the Funds objective, the Investment Manager divides the portfolio in to two components, dynamic beta and portable alpha. FundSource notes that Kapstream's risk neutral position is cash rather than a benchmark, allowing the Investment Manager to better manage the total risk of the portfolio by moving to cash and other defensive securities as risk/return characteristics vary.</p> <p>While the Fund is not benchmark aware, Kapstream have nominated a hybrid benchmark, 50% Bloomberg AusBond Composite Bond 0-3 Year Index / 50% Bloomberg AusBond Bank Bill Index. FundSource notes the Investment Manager states it is globally unconstrained, and absolute return focused. The hybrid benchmark, for performance reporting purposes only, is heavily Australian based, and doesn't fully reflect the unconstrained nature of the Investment Manager or the Fund.</p> <p>The Manager's monthly, quarterly and annual reports are available here. Longer dated performance is available for Kapstream AUT. Further performance information is available on the Disclose website, and FundSource.</p>
<p>What does the Manager invest your money into?</p>	<p>The Fund invests predominantly into short-dated global investment grade sovereign and corporate credit fixed income securities. Currency, interest rate, and credit derivatives are also used for risk hedging and to a lesser extent to generate incremental additional returns.</p>	<p>The Fund is suitable for investors looking for want an actively managed global fixed interest fund, that is focused on absolute returns, rather than a benchmark aware approach to investing. Capital preservation is central to the Investment Managers thinking, therefore, while the Fund is unconstrained and absolute return focused, the Fund does not look take on significant risk to generate a return. The majority of the Fund, 85-90%, is invested in a dynamic beta strategy, which is dominated by investment grade bonds.</p> <p>Sensitivity to interest rates is one aspect that the Investment Manager looks at closely. This is, in part, managed through duration. The range the Fund looks to range between -2 to +2 years is significantly less than fixed interest benchmarks, reducing the Funds sensitivity to any changes in interest rates globally. Portfolio risk is typically managed through derivatives, for which the Investment Manager matches with a cash allocation.</p>

		<p>Despite the Investment Manager striving to achieve volatility of $\leq 1.5\%$ lower than equity volatility, investors in the Fund should have a minimum investment horizon of at least three years. Over shorter periods, there is potential for the underlying funds to fall in value.</p>
<p>What are the inherent risks imbedded in the Fund?</p>	<p>The key risks inherent in the fund include: credit (default) risk, interest rate (duration) risk, and currency risk, although each of these is actively mitigated.</p>	<p>The Manager has a long track record in selecting underlying investment managers. FundSource notes this is the Manager's first foray in to a single underlying manager vehicle. This is characteristically different to the Manager's other products, which employ a multi manager approach.</p> <p>NZAM fully hedges the currency risk from Australian dollars to New Zealand dollars. There is no directional view from Manager, NZAM state currency hedging is entirely mechanical in nature.</p> <p>The Investment Manager's portable alpha component looks to generate returns from interest rate, currency, and credit quality based strategies, that can include strategies based around direction, spreads, yield curves, relative values and volatility. This is implemented based on the Investment Manager's macro and market cycle views. Investors should expect the alpha portfolio to comprise 10-15% of the overall portfolio, further managing the Fund risk.</p> <p>The Investment Manager will use derivatives such as futures, options swaps, and credit default swaps (CDS) to implement the alpha strategy. The use of derivatives can introduce leverage and increase risk. Risk is managed through a combination of proprietary in house quantitative risk systems and the judgment of the portfolio managers. FundSource highlights that all derivative positions are covered by cash. This may see cash positions appear to be high from time to time.</p>
<p>Why does the Manager believe the future prices of the Fund's investments will vary?</p>	<p>The Investment Manager targets high quality investment grade assets within the Fund which it does not expect to exhibit volatile pricing with. That said, factors such as rapid moves in interest rates, unexpected credit spread changes, or significant currency moves, may impact the pricing of assets in the short term.</p>	<p>The Investment Manager retains 85-90% of the Fund in core holdings. The core holdings typically comprise cash, deposits, fixed rate notes, floating rate securities, mortgage and asset backed securities. The allocation to the different securities types is predicated on the Investment Manager's macroeconomic view against prevailing market conditions.</p> <p>To date the Investment Manager has been able to minimise losses over a sustained period, with only seven months of drawdowns, since inception in 2007, despite significant changes in markets, post the global financial crisis. This is a testament to the Investment Manager's focus on capital preservation, ability to develop a strong understanding of macroeconomic backdrop, and position in the market cycle. These factors heavily influence Investment Manager's quarterly economic roundtable, which, when</p>

		<p>assessed against market expectations, identifies market discrepancies for focused investment opportunities.</p> <p>A capital preservation ethic dictates that the Manager looks to reduce volatility and market risk. FundSource notes that this implies there is a bias to downside protection, rather than outperformance.</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>Kapstream has proven successful in balancing/meeting the dual objectives of the Fund (capital preservation and a return of 2-3% above cash) across a range of market environments over 10 years, through investing dynamically on a benchmark-agnostic basis. It has proven its willingness and ability to act swiftly and decisively at times of market stress by moving a material element of the portfolio to ultra defensive assets in order to preserve capital. Kapstream believes it offers one of the lowest - if not the lowest - risk funds in the sector.</p>	<p>There is insufficient history for the PIE Fund to draw any conclusions, and the Fund hasn't been classified in the FE Analytics database, at the time of writing. However, the Kapstream underlying AUT fund has a 10 year track record, and sits in the FE Analytics AMI Absolute Return sector. This FE Analytics sector consists of 47 funds, and covers a large number of strategies, ranging from long short equity to dynamic volatility strategies, very much a mixed bag of investment opportunities. FundSource notes that 10 of the funds in this FE Analytics AMI Absolute Return sector are fixed interest focused.</p> <p>The PIE Fund performance is available via the NZAM factsheets. Further performance data is available via the Disclose website and FundSource.</p> <p>The Kapstream AUT has had the lowest volatility, less than 1%pa for all periods, in the FE Analytics AMI Absolute Return sector, where volatility ranges from ~5.5%-10.7%pa across the same periods. Using volatility as a measure, the Investment Manager has met its capital preservation objective. FundSource highlights that volatility is one of several measures that should be considered when developing a picture of the Fund. Despite the Investment Manager promoting 85-90% of the Fund is invested in it beta portfolio, the fund exhibits a very low beta, close to zero, which supports the Fund's very low volatility. Beta is a measure of volatility compared to the market. Compared to the 10 peer FE Analytics sector peer funds the Kapstream AUT has exhibited the lowest volatility and beta, and the highest Sharpe Ratio, a measure of for calculating risk adjusted returns, for most periods. The higher the number the better.</p> <p>The Investment Manager attributes its sources of value add as security selection ~20%, credit duration ~20%, sector allocation ~15%, duration management ~25%, and other factors contributing ~20%.</p> <p>FundSource notes that the NZAM PIE Fund's performance history is too short to meaningfully evaluate. The Kapstream AUT exhibits performance that is around the average of the FE Analytics, with a very consistent mid 4-5%pa. FundSource notes that since the AUT Fund's inception, the Australian cash rate has moved from a 2008 high of 7.25% high, down to the current 1.50%.</p>

<p>How does the Manager decide to buy or sell investments?</p>	<p>'Top down' macro views determine areas of focus and avoidance (e.g. by geography or industry), and define broad risk characteristics (duration, headline credit quality, currency exposure, etc.). This framework drives unconstrained 'bottom up' security selection, with assets subject to rigorous fundamental research and relative value analysis ultimately determining portfolio constituents.</p>	<p>The Investment Manager adheres to an active and less traditional approach to fixed interest management, one that blends top down macroeconomic outputs with bottom-up security selection. The Fund is not subject to benchmark relative constraints, the investment team have greater scope to incorporate best trade ideas and position the portfolio in response to views on the prevailing market conditions. FundSource believes that Kapstream's benchmark unaware approach to investing is aligned with that of the Manager, NZAM.</p> <p>The asset allocation of the Fund is monitored daily, and takes account of market movements, together with any inflows and outflows. Rebalancing occurs if actual allocations have deviated sufficiently from desired levels, and justifies trading cost.</p>
<p>Has the CIO/ Portfolio Manager personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>Yes. The whole Kapstream team holds investments in the Fund in the same share class paying the same fees as external clients.</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. In this case, NZAM staff would be expected to invest via the PIE Fund structure.</p> <p>The Manager's staff trading restrictions does allow staff to invest in underlying managers, on a permission basis, and must be executed through the Manager's custodian. FundSource prefers that staff not being permitted to trade directly in the same securities or funds as the Manager's funds, which FundSource considers is optimal corporate governance. FundSource does recognise that the Manager does have a structure around this process, which prevents staff from front running any trading activity, the Fund may be looking to implement.</p> <p>The Investment Manager is eating its own cooking, with the whole team invested in the Kapstream AUT. This component includes vesting variable compensation over three years and personal investment. The team are not able to buy fixed interest investments outside the AUT Fund. The Kapstream investment team are able to purchase other securities, for example equities and property.</p> <p>As a part of the sale of Kapstream to Janus, and ultimately Janus Henderson, the Kapstream shareholders payments are held in escrow in the Kapstream AUT fund. Therefore, final payments to Kapstream shareholders, expected to be paid in 2019, are reliant on the Kapstream AUT performance.</p>
<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>The Fund is not managed to a conventional benchmark relative approach and as such there is no benchmark portfolio to consider. A series of absolute risk limits and asset allocation guidelines determine overall portfolio exposures.</p>	<p>Potential investors should be aware that this Fund is unconstrained, and therefore has very few hard or soft limits that is must adhere to. The Fund is not benchmark aware, and does not aim to replicate any aspect of the benchmark, this includes the hybrid performance benchmark the</p>

	<p>Tracking Error: n/a Cash Allocation: 0% to 100% Single Manager Limit: n/a Sector Limits: n/a Regional Limits: n/a</p> <p>Duration: -2 to +2 years Targeted Volatility: ≤1.5% annualised Investment Grade: 85 to 100%</p>	<p>Investment Manager uses. NZAM has modified or mandated any changes to the Investment Manager's current process or universe from which it invests.</p> <p>The Fund's duration, targeted volatility and the quality of the underlying securities provide the principle guidance, combined with the Investment Manager's macro views. The latter will determine which sectors, countries and regions look attractive. They will also influence the duration, and credit quality. At the time of writing, the duration is around the mid-point at ~0.5 years, and credit quality is all investment grade, averaging A+.</p>
On what basis does the Manager believe the fees they charge are justified?	The fund's Total Expense Ratio (TER) on a look-through basis is 0.70%.	<p>The Investment Managers AUT fee is 0.70%pa, this well below the average fee charged by the FE Analytics AMI Absolute Return sector. This is also the case with the NZAM PIE version of the Fund, with NZAM PIE versions basic fee at 0.40%. The Fund has not been assigned to a FE Analytics NZMI sector, at the time of writing. However, compared to the FE Analytics NZMI Alternative Sector, the NZAM PIE structure basic fee, 0.40%, is the lowest in sector, the TER, 0.70%, is well below the FE Analytics sector peer average.</p>
How would you describe the quality of your organisational and investment governance processes?	<p>Kapstream is overseen by its board comprising Kumar Palghat, Steve Goldman and two other directors who are senior employees of the parent firm Janus Henderson, of which Kapstream is a wholly owned subsidiary, and subject to robust group-wide policy relating to compliance and operational procedures.</p>	<p>The Investment Manager has embedded compliance and risk management systems in to the proprietary or customised off the shelf services it uses, Kapstream Analytics Portal and SimCorp Dimension, Bloomberg and FINCAD. Pre-trade compliance checks run automatically on creating a new portfolio order. FundSource is aware that the PM can override compliance fails. If the PM overrides a rule a comment explaining the reason for the override must be added. This to some degree undermines the time taken to set parameters in to the services employed to ensure strong investment governance.</p> <p>In Australia additional compliance and governance frameworks are provided by Fidante Partners, the Australian retail distributor for Kapstream. NZAM is responsible for the PIE structure. NZAM has outsourced some functions to reputable firms (Custodian – Public Trust, Audit – Deloitte, Legal – Michael Dineen Law and NZAM banks with BNZ). FundSource highlights that Janus Henderson overlay their global research, compliance, and governance frameworks, as a part of the acquisition of Kapstream.</p> <p>FundSource notes that the Investment Manager subscribes to MSCI ESG data and reporting, which is included in the Investment Managers decision making process. However, the Investment Managers practices, goal, incentives or remuneration are not linked to MSCI ESG outcomes. From a New Zealand perspective, the onus on compliance with New Zealand laws lies with NZAM, as the</p>

		<p>responsible manager for the PIE Fund structure.</p> <p>Post trade compliance is carried out on a T-1 basis. The Fidante Investment Compliance Team meets with the Fidante Risk Compliance and Institutional Client Service Team reviewed exception. Cash balances are verified prior to portfolio order being placed.</p>
Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?	<p>The three principals of Kapstream retain an ownership stake through unvested interests in the firm (held in escrow in the Fund) that are partially subject to Kapstream business and Fund performance metrics. Short term incentives ('STI') for the wider investment team are determined by a range of factors including performance of the Fund and the business, and an element of STI is held in escrow in the Fund and vests over a 3 year period. These measures combine create strong alignment of interests.</p>	<p>The ownership of Kapstream has changed since 2015, with Janus Capital Group acquiring a majority ownership stake in July 2015, in February 2017 Janus increased its stake to 100% ownership. Over the period of October 2016 to May 2017 Janus Capital and the Henderson Group merged to create Janus Henderson. From a corporate perspective, there has been a significant change in ownership of all three companies. Kumar Pulghat had assumed the role of Global Head of Fixed Income for the combined Janus Henderson Group, however has since stepped back from the role, and has re-assumed his role as Portfolio Manager at Kapstream. FundSource is not overly concerned by this change as it ensures a Kapastream co-founder is focused on the Kapstream business.</p> <p>FundSource highlights that holding a portion of the ownership stake and the Kapstream teams STI's in escrow as units in the Fund brings strong alignment to investors. The final result of the sale of Kapstream, and staff incentives, are dictated by the Funds' performance. The Funds' performance dictates shareholder and staff incentive plan outcomes. Making Kapstream staff significant investors in the Fund. FundSource considers the escrowed component of a proportion of staff STI's to be one of the stronger alignments with investors.</p>

Conclusion and Rating

Overall, FundSource believes the Manager is filling a gap in the New Zealand market place, from an asset allocation perspective, in unconstrained fixed interest sector.

The Manager, NZAM, is well resourced, and has partnered with appropriate service providers to assist in managing the PIE fund structure. NZAM outsource some service functions to highly regarded service providers in the New Zealand market.

The Kapstream investment team has strong industry experience and manager tenure, despite the recent changes in ownership and recent role changes, in the case of Kumar Palghat, and a very recent departure. The investment team is very well resourced, both internally, and leveraging the ability to access resources from the broader Janus Henderson group. FundSource views Kaptream has strong alignment with investors through staff escrowed shareholdings, and investment in the Fund is positively.

The Fund has achieved two of its three stated goals. Both volatility management and low correlation to global equities has been achieved. The Funds' performance history, in the short term, since 2015, has been below the OCR +2-3%

objective. Over the medium-term performance has been at the higher end of the OCR +4-5% expectation.

It is important to understand that the Investment Manager's investment strategy can appear to be simple. However, FundSource highlights that the alpha component can be complex, and is based around derivatives, rather than physical ownership of fixed interest instruments.

The Funds' basic fee is well below the average FE Analytics NZMI Alternatives and FE Analytics AMI Absolute Return sector fee. The Manager, NZAM, and the Investment Manager, Kapstream, have worked together to achieve a very compelling fee structure, for New Zealand investors.

FundSource recommends that investors carefully consider that the Manager's and Investment Manager's approach to absolute return investing investment in the fixed interest sector. The Fund can be classified as either a Fixed Internst Fund or an Alternative Fund. Alternative funds, as an asset class, typically comprises ≤10% of the overall asset allocation.

FundSource Rating: **AA**

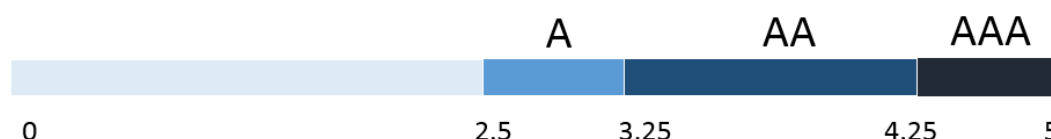
Fund ratings are current as at the date of publication of this report. FundSource reserve the right to review and update fund ratings from time to time.

Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score
Corporate & Investment Governance	15%	3.75 / 5
Investment Philosophy & Process	20%	5.00 / 5
People	25%	4.00 / 5
Portfolio Construction & Implementation	15%	3.50 / 5
Risk Management	15%	4.20 / 5
Investment Fees	10%	4.29 / 5
Overall Average Score:		4.15 / 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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