



# RESEARCHIP

## Qualitative Fund Research

Generate KiwiSaver Focused Growth Fund

3 December 2022

 RESEARCHIP Rating



*The views and opinions in this document are considered valid from one year from the date published.*

# Qualitative Fund Research Contents

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## Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score	Maximum Factor Score
Corporate & Investment Governance	15%	3.50	/ 5
Investment Philosophy & Process	20%	3.40	/ 5
People	25%	3.33	/ 5
Portfolio Construction & Implementation	15%	3.08	/ 5
Risk Management	15%	3.20	/ 5
Investment Fees	10%	2.86	/ 5
<b>Overall Average Score</b>		<b>3.27</b>	<b>/ 5</b>

## What We Look At?

The qualitative rating of a fund is a function of the Research IP Research Factor Weighting process, which incorporates the following:



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## Meet the Manager

Generate is an award-winning New Zealand owned KiwiSaver and Managed Funds provider. Their vision is to be the first choice for investors and advisers in relation to KiwiSaver and wealth products. They strive to provide strong long-term performance through responsible investments coupled with excellent service.

Generate ranked as a top provider in Consumer NZ's KiwiSaver Customer Satisfaction survey 2022, and they have won a number of awards including best KiwiSaver service at the Quality Service Award 2022 and the Adviser's Choice award for KiwiSaver at the Research IP Fund Manager of the Year Awards 2021. They have also been awarded a Gold rating every year for the last six years, in SuperRatings unique value for money assessment. Further information on the Manager can be found in its [online profile](#).

Generate's [investment philosophy](#) is that markets are not always efficient at pricing securities, especially over long-time horizons, and that an actively managed portfolio of diversified assets can exploit these inefficiencies.

Generate's funds have been recognised officially as 'Mindful Funds' and have some of the lowest levels of investment in 'issues of concern' on the Mindful Money website. Generate have been a signatory to the United Nations Principles of [Responsible Investment](#) (UNPRI) since 2018, and they incorporate negative screening and ESG policies into their security selection process. Generate promote impact investing and work actively with partners for a more sustainable future. In 2020, they were the first KiwiSaver provider to invest into social housing, with a \$20m cornerstone investment, into bonds that helped build 118 new homes. Generate are also proud supporters of the Live Ocean Foundation.

Generate manages six KiwiSaver Funds and three Managed Funds, including:

- Generate KiwiSaver Defensive Fund
- Generate KiwiSaver Conservative Fund
- Generate KiwiSaver Moderate Fund
- Generate KiwiSaver Balanced Fund
- Generate KiwiSaver Growth Fund
- Generate KiwiSaver Focused Growth Fund
- Generate Conservative Managed Fund
- Generate Balanced Managed Fund
- Generate Focused Growth Managed Fund




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# Key Takeouts

This is General Advice only and should be read in conjunction with the Disclaimers, Disclosures and Warnings at the end of this document.

**Quantitative Tear Sheet** - <https://platform.research-ip.com/>

Platform is FREE to access via registration – performance data updated monthly.

[Factsheet](#)

[Report](#)

[PDS](#)

[Articles / Views](#)

For important Fund Facts view the [RIPPL Effect](#)

## The Fund

Fund Details	Generate KiwiSaver Focused Growth Fund
Investment Objectives	The fund aims to provide a higher growth investment return over the long-term through investment in nearly all growth assets. The portfolio is actively managed and includes cash, fixed interest, property and infrastructure assets, Australasian equities and international equities.
Benchmark	The benchmark market index for the Fund is a composite benchmark. This is determined by using the benchmark market index for each asset class and combining the index returns based on the Funds' Target Asset Allocation weighting to each asset class for the relevant period. Cash – S&P/NZX Call Rate Deposit Index Property & Infrastructure – 40% S&P/NZX All Real Estate industry Group Gross with Imputation Index, 60% S&P/NZ50 Index Gross Australasian equities – S&P/NZ50 Index Gross International equities – 50% MSCI World ex Australia Net TR 100% hedged to NZD 50% MSCI World ex Australia Net TR 100% hedged to NZD
Alpha Objective	N/A
Management Fee	1.191% management fee
Performance Fee	The Fund invests into externally managed funds. The externally managed funds' performance fees provided in the summary of regular charges in the PDS reflect the total estimated charges for performance fees from the externally managed funds. Most recent estimated externally managed fund performance fee of 0.007% - 2 December 2022 (PDS)
Estimate of Total Fund Charges	1.33% (ex GST) – 2 December 2022 (PDS)

The Generate KiwiSaver Scheme Focused Growth Fund (“the Fund”) is actively managed and invests in an actively managed diversified portfolio of proven externally managed funds, international equities, property and infrastructure assets, Australasian equities and cash. The Fund also has the ability to invest in fixed income but it does not have a target asset allocation to this asset class.

Volatility is likely to be the highest of the funds. Long-term returns are likely to be highest of the funds due to the highest weighting of growth assets.

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Factor	Lower Limit	Upper Limit	Reference
<b>Growth Assets</b>	65%	100%	95%
Property and Infrastructure	0%	35%	15%
Australasian equities	0%	35%	15%
International equities	45%	85%	65%
<b>Income Assets</b>	0%	35%	5%
Cash	0%	35%	5%
Fixed Interest	0%	20%	0%

Each fund has a long-term target investment mix. The actual investment mix will vary from the target investment mix as we pursue tactical investment opportunities, or as we seek to protect asset values in periods of market volatility.

Specific unanimous Investment Committee (IC) approval is required to move outside a 15% +/- 'tolerance range' on either side of the Target Asset Allocations. As an example, in order for the Fund to hold more than 80% (that's 65% plus 15%) in international equities the Investment Executives would need unanimous IC approval. Aside from this, the Manager may change the Target Asset Allocations with prior unanimous approval from the IC.

## Using this Fund

The Fund is diversified across different asset classes with relatively broad asset allocation ranges around the target weightings. The Fund's asset allocation decisions can have a material impact on performance, as well as security selection. It is important to note that the asset mix and hence the risk profile of the fund can change over time.

The Fund is subject to fixed interest and equity market risk and movements (both positive and negative) in both the prices of fixed interest securities and share prices of the underlying securities in the portfolio. Accordingly, investors should therefore be aware that the Fund may experience periods of negative returns and that there is a risk of potential capital loss being incurred on their investment. Research IP believes the Fund is suitable for investors with a time horizon of at least 8 years.

Investors should be aware of the rules surrounding KiwiSaver investments before investing. These are disclosed in the [Product Disclosure Statement](#).

## What the Manager Says?

Insight	Manager view	Research IP opinion
<p><b>Who is accountable for managing the fund?</b></p> <p><b>Is the investment teams work history relevant to the funds they manage?</b></p>	<p>Sam Goldwater</p> <p><u><i>Sam Goldwater</i></u></p> <p>Sam has 24 years of financial markets experience. Locally he worked in fixed income sales and trading for the National Bank of New Zealand Treasury, co-managed the bond desk at First NZ Capital, and immediately prior to Generate led the investment management of a sizeable portfolio of family assets. He also worked for three years in London in fixed income trading and origination. Sam co-founded Generate in late 2012.</p> <p><u><i>Daniel Frost</i></u></p> <p>Daniel has worked in financial markets for over 20 years in a variety of roles. He began his career as a fund analyst at an independent research house before spending a decade working as a domestic equity analyst and then as a portfolio manager at a funds management firm. After a two year stint in London working for a specialist consulting firm advising charities on investment strategy and manager selection, Daniel shifted back to NZ and spent five years working at an investment bank in an equities research role before joining Generate in early 2018.</p> <p><u><i>Andrew Bolland</i></u></p> <p>Andrew has over 10 years investment experience. Prior to joining Generate, Andrew spent more than 6 years at Salt Funds Management leaving in 2019 as a Senior Analyst and Associate Portfolio Manager. Salt Funds Management was formerly the inhouse equities team at Westpac New Zealand/BT Group during which time Andrew was a Quantitative Analyst. Andrew's investment career began with Westpac in 2010 as one of three to be selected to take part in the graduate programme within the Private, Wealth and Insurance division.</p> <p><u><i>Ayrton Oliver</i></u></p> <p>Ayrton has over 8 years investment experience. Prior to joining Generate in 2021, Ayrton was Vice President in the portfolio management team at JP Morgan in London which managed the bank's non-US FX and interest rate risks. Ayrton's investment career began with the graduate trader programme at Citi Group in Sydney before transferring to the</p>	<p>The Manager employs a collaborative approach to the management of the Fund, though ultimate accountability lies with Sam Goldwater.</p> <p>Analysis and management of underlying asset classes are assigned to key individuals as follows:</p> <ul style="list-style-type: none"> <li>- Australasian equity, property and infrastructure is the primary responsibility of Daniel Frost and Andrew Bolland.</li> <li>- Fixed interest is the primary responsibility of Ayrton Oliver. Goldwater was previously in charge of fixed interest and continues to add his experience in this space where needed.</li> <li>- International equity is the primary responsibility of Goldwater but is assisted by Warwick Simons of WS Portfolio Advisory LLC (an SEC-regulated Registered Investment Advisor) sub -portfolio manager of global equities, and other members of the investment team including two new global equity analysts. Additionally, Nathan Field will be added to the global equity team as Portfolio Manager in March 2023.</li> </ul> <p>The overall structure of the investment team is relatively flat. The overseas experience of key individuals and skills acquired in different parts of the investment industry is a positive.</p> <p>At present the coverage across the Manager's funds is manageable though as the size of funds under management grow the investment team will need to expand. Naturally this will be a challenge, though Research IP believes the Manager is well-equipped to grow the team when needed. Recent hires in risk and compliance have demonstrated the ability of the Manager to attract experienced professionals in the New Zealand market. As mentioned above, the Manager also hired two new global equity analysts in December 2021 and appointed WS Portfolio Advisory LLC as sub-portfolio manager.</p> <p>Further accountability outside day-to-day management of the Fund lies with the Investment Committee. Goldwater is a member and is accompanied by Henry Tongue (CEO and co-founder) and two independent</p>

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	<p>JP Morgan role initially based in Sydney before shifting to London in 2017.</p> <p><u>Warwick Simons (WS Portfolio Advisory LLC)</u> Warwick has 16 years of professional investment experience, in addition to five years of strategy consulting experience at Bain &amp; Company. Warwick started his investment career in 2006 as an analyst at a global equity fund based in London. He has also worked in investment research roles for Goldman Sachs in Hong Kong, and two smaller investment research businesses.</p> <p>Warwick is based in Seattle, USA, where he established WS Portfolio Advisory LLC, an SEC-regulated Registered Investment Advisor. He began advising Generate on global investments in early 2021, and WS Portfolio Advisory LLC is now a sub-portfolio advisor for Generate's global direct investments. Warwick is a proud New Zealander despite his global travels, with degrees in Finance and Law from The University of Auckland, and an MBA from INSEAD in France. Generate has an Investment Committee (IC) which is made up of experienced investment professionals. The IC is responsible for overseeing investment decisions made by the Investment Executive.</p>	<p>members, Peter Brook and Nick Bowden. Both Brook and Bowden have over 20 years' experience across different facets of the investment industry.</p>
<p><b>Has the CIO/ PM personally invested in the Fund? Are they paying the same fees as other investors?</b></p>	<p>Is the PM invested in the Fund? Yes</p> <p>Is the CIO invested in the Fund? Yes</p> <p>Is the broader team invested in this Fund? Yes</p> <p>Are they paying the same fees? Yes</p>	<p>Alignment of interest between the Manager and investors is important for the long-term management of any investment portfolio.</p> <p>Generate demonstrate strong alignment through personal investments in the Fund alongside investors at the same fee rate.</p> <p>Research IP believe Goldwater and Tongue demonstrate a genuine drive to provide a reliable option for investors in the New Zealand market.</p>
<p><b>Why would you allocate to this fund?</b></p>	<p>Generate is a New Zealand owned and operated specialist investment manager. The fund is actively managed, has a Responsible Investment Policy which integrates environmental, social and governance issues as part of the investment process.</p> <p>Generate believes that proactively managing ESG issues will deliver stronger long-term investment returns.</p> <p>We also offer good customer service and advice (via financial advisers) with over 95% of our members joining through an adviser.</p> <p>Research conducted by the Financial Services Council in 2020 showed that "New Zealanders</p>	<p>The Manager takes an active approach to investment management with an emphasis on net of fee returns for investors. The assets are managed both internally and through external investment managers.</p> <p>One distinction of the Manager's approach to date has been the selection of quality external investment managers within the allocation to international equities. The external managers used include:</p> <ul style="list-style-type: none"> <li>- T. Rowe Price Global Equity Fund</li> <li>- Berkshire Hathaway Inc and Magellan (accessed via listed holdings)</li> <li>- Worldwide Healthcare Trust</li> <li>- European Opportunities Trust</li> </ul>

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	<p>that get professional financial advice tend to be higher earners and are financially stronger. They have:</p> <ul style="list-style-type: none"> <li>• 50% more in their KiwiSaver</li> <li>• Save 3.7% more of their earnings”</li> </ul> <p><a href="https://blog.fsc.org.nz/research-2020-literacy-insight-advice">https://blog.fsc.org.nz/research-2020-literacy-insight-advice</a></p> <p>Investments are spread across multiple asset classes to diversify risk.</p>	<p>As at 30 September 2022 the allocation to these external managers equated to approximately 20% of the total Fund. The Manager is looking to add to the number of external funds used, though not increase the weight to these above 20%. The rest of the international equity allocation is managed internally with direct allocations to stocks such as Berkshire Hathaway, Microsoft, and Alphabet amongst others.</p> <p>The Manager has the ability to employ tactical asset allocation. The tolerance range around long-term targets allowed is +/- 15%. This enables the Manager to vary the asset holdings if it is believed the assets are under- or overvalued. For example, the Manager has remained underweight listed property since 2018, though the size of this underweight has varied from approximately &lt;2% to 8%.</p> <p>The Manager employs a broad approach to responsible investing. Research IP believes this is another distinction in the KiwiSaver market which the Manager has evidence to back up. Further information on the Manager’s approach to responsible investing is discussed below, see the response to “Describe the Manager’s ESG, Corporate Sustainability policies and engagement”.</p>
<p><b>What are key factors in the buying and selling decisions of the Fund?</b></p>	<p>The manager actively manages all assets</p> <p>Generate believes the incorporation for ESG analysis is important because it can enhance the risk-adjusted returns of our funds by incorporating ESG analysis into our process thereby taking a more holistic investment approach. More specially, there is a high likelihood that environment, social or governance deficiencies will eventually translate through to lower cashflow generation. In the meantime, there is a significant risk that these businesses will attract a higher cost of capital.</p> <p>We have a two-part approach to responsible investment which reflects differing levels of control we have between internally and externally managed money. We have less control over externally managed money and thus use an exclusion approach. This is complemented by the inclusion of a review of managers’ responsible investment approaches during the selection and monitoring process. More specifically, there are two levels to our responsible investment approach. The first is that all of our investments are subject to a negative screen</p>	<p>The Manager is more benchmark aware following the internal launch of the wholesale feeder funds into this strategy. There is more scrutiny on the contribution of these funds measured against the relevant fund benchmarks.</p> <p>In line with this, Research IP notes the target weighting to property/infrastructure was reduced in 2022 to 15% (from 30%) and the target weighting to Australasian equities was increased from 0% to 15%. These weightings move the Manager closer to relevant peers.</p> <p>Furthermore, the asset class benchmark for property/infrastructure was changed to 60% S&amp;P/NZX 50 Index Gross and 40% S&amp;P/NZX Real Estate Index; whilst the Australasian equity benchmark remained the same, the S&amp;P/NZX 50 Index Gross. Using a weighted composite approach for this part of the portfolio, it means that instead of 30% benchmarked against the S&amp;P/NZX 50 Index Gross, it is now 24% against the S&amp;P/NZX 50 Index Gross and 6% against the S&amp;P/NZX Real Estate Index.</p>

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(i.e. those held directly in portions of the portfolio managed internally as well as those included in funds the portfolios invest in). Specifically, investments into companies involved in the following activities are excluded: cluster munitions, anti-personnel mines, chemical weapons, nuclear warheads, whaling and manufacture of tobacco. Second, we have an additional level of ESG analysis for investments managed internally. As part of our fundamental bottom-up research on companies used to select equities directly, we assess their ESG risks and performance. The focus of our analysis differs depending on what are judged to be the key issues facing a company. For ESG factors we use the SASB materiality map as a starting point of identifying the key factors to focus on. Typical issues that are researched include carbon emissions, environmental impacts, employee health and safety, board and senior management diversity, the incentive structure for senior management and the board and finally a past examples of poor governance.

The manager ensures the Fund's investments are within the investment concentration limits set out in the SIPO. Liquidity risk is managed by considering the liquidity of each individual security and in turn the overall composition of liquidity available in the portfolio relative to the funds' investor profile. Further Generate regularly monitors any changes to portfolio liquidity requirements.

Currency exposures are actively managed by deciding whether to fully or partially offset the impact of currency movements by entering into foreign exchange transactions.

Position sizes are determined by the expected level of return and volatility.

Generate makes buy and sell decisions at any point in time based on the risk/reward on offer. This view is formed on the basis of the current market conditions that are present at any given time and how those may affect an investment's prospects. This is usually the result of a potential event being identified to either improve or deteriorate an investment's cash flow potential. Alongside these potential market/investment events, valuations are constantly reviewed on both a relative and absolute basis. Where valuations are deemed to misalign with an investment's prospects, a decision to buy or sell may be made.

The Investment Committee keeps an "Approved Issuer List" which effectively gives the investment team their investment universe. The investment team combine internal valuations, broker research, and company visits as inputs to their research process.

Key considerations when investing in securities or funds within the approved issuer list are based on a combination of top-down and bottom-up analysis. With respect to bottom-up analysis, the Manager aims for earnings quality at a reasonable price. Within this the Manager will use cash flow valuation models to gain a better understanding of how sustainable a stock's potential growth might be. The strength of a company's capital position will also be assessed at this point.

Top-down analysis takes into account tailwinds or headwinds in certain sectors. Research IP highlights the healthcare and technology sectors which have historically held significant weightings in the portfolio.

Sell decisions within the portfolio are taken on a case-by-case basis. These will chiefly be based on risk and reward. The Manager will make assessments on bottom-up or top-down factors. For example, valuation of specific stocks has propelled the Manager to trim or sell out of positions. Poor governance has forced the Manager to sell out of a stock in the past. A poor performing stock that continued to increase remuneration for Senior Management also provided a reason for the Manager to sell down a position in the portfolio. Analysis at the sectoral level, as well as a focus on the allowable asset allocation ranges each day also prompts the Manager to reposition the portfolio.

Research IP highlights the unanimous approval needed from the IC if the Manager wishes to move outside the +/- 15% tolerance range around target asset allocations. The tolerance range of +/- 15% applies to the "Reference" percentages noted in the Factor table within The Fund section of this report. Within this table the Manager also specifies hard limits on the underlying asset classes outside which there is no tolerance to move.

<p><b>What are the key drivers of the Fund's performance?</b></p>	<p>The Focused Growth Fund has a 95% target weighting in shares, and consequently, the performance of domestic and global share markets is a key determinant of returns for the Fund. The share market investments are split between Property &amp; Infrastructure companies (long-term target of 15%), Australasian equities (long-term target of 15%) and international equities (long-term target of 65%).</p> <p>The international equity allocation is split between high quality managers (for example T Rowe Price) and a concentrated portfolio of high conviction investments. This exposure provides the Fund with an exposure to successful high quality growth companies.</p>	<p>Research IP believes the key driver of performance across the portfolio will be from the allocation to equities.</p> <p>Within the equity allocation to Australasian equities (including property and infrastructure) the bias will consist of earnings quality and yield factors. The Manager takes an active approach, so stock selection will drive a significant portion of the Fund's performance over the long-term.</p> <p>The international equity allocation has a quality bias. For example, through listed exposure to Astrazeneca and Berkshire Hathaway Class B shares. However, there is also an element of growth through the Manager's allocation to the T. Rowe Price Global Equity Growth Fund, and stocks like Microsoft, Visa, Alphabet, and Thermofisher. Between 2017 and 2022 the allocation to direct stocks increased from around 19% of the Fund to approximately 45%. The performance contribution of the increased allocation to international companies versus the managed fund exposures is not clear. Therefore, the contribution of the Manager skill is difficult to evaluate.</p>
<p><b>What are the risks of investing in this Fund?</b></p>	<p>The Focused Growth Fund has significant exposure to both domestic and global shares. More specifically, it has a long term target allocation of 15% to Property &amp; Infrastructure and 15% to Australasian equities (the fund's domestic sharemarket allocation) and 65% to international equities. Consequently, the key risk to the fund is share market risk. Generate seeks to manage this risk through active management and diversification. It also believes that over the long term sharemarkets will outperform cash and fixed income, and so investors with a long horizon will be compensated for short term variability of returns.</p> <p>The significant long term target allocation to international equities (65%) also exposes the Fund to foreign exchange risk. Generate actively manages this risk around a 50% hedge position. We believe that hedging currency risk minimises risk in the long run, because when global equities underperform so does the NZ dollar, which acts to cushion these declines.</p> <p>The Fund also has a modest investment in fixed income securities. These investments expose the Fund to interest rate risk and credit risk. The fixed income securities typically have a relatively short maturity (when compared to</p>	<p>The Manager has a specific set of policies to help manage risk within the portfolio. These are documented within the <a href="#">Statement of Investment Policy and Objectives</a>. Section 5 addresses portfolio risk considerations such as concentration of investments, liquidity, rebalancing, and hedging.</p> <p>Research IP highlights the majority of risk within the portfolio will emanate from the allocation to equities, more so the direct equity holdings than those making up the underlying funds. The Manager has the ability to use futures or options to manage risk here but has not used this approach to date. Instead, the Manager will lighten the weighting to equity if they thought risk was becoming elevated in share markets.</p> <p>Goldwater makes a concerted effort to focus on asset allocation and currency exposure on a daily basis. The Manager is very active with respect to foreign exchange hedging. The long-term target for currency exposure is 50% from which the investment team is able to deviate by +/-15%. The global equity benchmark was adjusted in 2022 to reflect the long term target of 50% hedged. Neutralising the FX effect of global equities overall.</p>

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	<p>the market benchmark index) which reduces interest rate risk. Comprehensive due diligence and diversification limit credit risk.</p>	<p>Regarding diversification between asset classes, Research IP notes there is no target allocation to fixed interest in the Fund. However, the Manager does have the ability to allocate to fixed interest if need be. Research IP believes this asset class can provide a wider opportunity set to manage risk within the portfolio, particularly in a diverging global inflationary environment. This is less of a concern for this Fund compared to the Manager's other KiwiSaver products given the growth and income asset split (95%/5%) and long-term investment objective.</p>
<p><b>On what basis are the fees charged justified?</b></p>	<p>We have provided a great product with high levels of service to our members. The Focus Growth Fund has consistently been one of the top performers amongst its peers and Generate has invested heavily to provide market leading customer service.</p> <p>We monitor the competitive landscape.</p> <p>Our fees have been trending lower in recent years as we enjoy the benefits of scale.</p> <p>Members pay "other administration charges" that help Generate cover the cost of various administrative functions.</p>	<p>Research IP believes the Manager is transparent from a fees perspective. Fees are disclosed in the <a href="#">Product Disclosure Statement</a>, with additional information in 'Other Material Information'.</p> <p>The Manager does not include GST within total Fund charges. Research IP notes this is a common occurrence amongst New Zealand fund managers. More transparency on fees is provided in the Manager's <a href="#">RIPPL Effect report</a>.</p> <p>Research IP observes that the manager's basic fee is in the higher half compared to sector peer relevant funds in New Zealand. The total fund charge is also in the higher half compared to sector peer relevant funds in New Zealand, though the Manager reduced this in 2022. There is likely to be periodic differences between market participants due to the disclosure requirements in New Zealand surrounding "management fees", "other administration charges", "performance fees" and "underlying fund fees".</p>
<p><b>Describe the quality of the organisational and investment governance processes?</b></p>	<p>Generate has an Investment Committee (IC) which is made up of experienced investment professionals. The IC is responsible for overseeing investment decisions of the Fund.</p> <p>The IC keeps an Approved Issuer List (AIL) of all the assets that the Fund is allowed to invest into (excluding cash and cash equivalent). In order for a new asset to be added to the AIL it must receive unanimous approval from the IC. Once unanimous approval has been received the new assets are able to be added to the AIL. In addition Generate executes trades via the Bloomberg end-to-end Order Management System (OMS) which has a compliance module that monitors and implements pre and post trade functionality. The OMS is used as a key method of confirmation and communication between the investment team, the Custodian and the Administrator</p>	<p>The Investment Committee (IC) and Investment Executive (senior members of the investment team) meet every two months. Henry Tongue and Sam Goldwater are part of both groups. Peter Brook and Nick Bowden are the other two Investment Committee members.</p> <p>Each stock available to the investment team to potentially invest in must be pre-approved by the IC (i.e., the approved issuer list). Research IP believes this has the potential to restrict the agility of the Manager, though this is alleviated somewhat with the ability of the IC to consider new investments outside the approved issuer list through circular resolution via email. Thus, meaning that there is so no need to wait every two months for the meeting between the IC and Investment Executive.</p>

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	<ul style="list-style-type: none"> <li>• All trades executed/transacted are entered directly into the OMS by the Investment Manager</li> <li>• Investment Operations checks the trades against broker Contract Notes and releases them in the OMS downstream to the Custodian and Administrator for settlement</li> <li>• Positions are reconciled daily (within the OMS) between Generate, the Custodian and the Administrator</li> <li>• Pre and post trade compliance is monitored (within the OMS) by the Compliance Department</li> </ul> <p>Is there separation of duties? Yes</p> <p>Generate Investment Management Limited (GIML) is licensed under the Financial Markets Conduct Act as a Managed Investment Scheme Manager. GIML is the manager of the Generate KiwiSaver Scheme and the Generate Unit Trust Scheme. A board charter sets out the roles and responsibilities of the board and directors and how they can delegate to management and sub-committees. The Board is responsible for the governance and control of Generate's activities. This includes the approval of strategy, key policies and procedures, financial reporting, compliance and risk management. The board has established two standing committees to assist with the delivery of these activities: (a) the Compliance Committee, which is responsible for all legislative, regulatory, supervisory and internal compliance requirements and (b) the Investment Committee, which is responsible for investment strategy and policies.</p>	<p>Further to this, there are specific approvals needed from the Supervisor (Public Trust) for unlisted property and infrastructure. An example of this was the Manager's investment into a property fund in 2020. The allocation to unlisted investments will increase the liquidity risk in the portfolio, however the overall allocation to unlisted securities is expected to be low. Further to this, the investment team monitors the overall Fund liquidity to ensure taxation payments, withdrawals, fees and expenses can be met during normal market conditions.</p> <p>Investment team meetings take place throughout the week. Alongside this, less formal discussions around positions in the Fund and ideas occur with frequency due to the team working together in the same room.</p> <p>Research IP highlights the addition of the Bloomberg AIM tool to help manage risk through the investment process. Whilst it is early days in terms of usage, Research IP believes this is a positive step to maintain oversight of risk in the portfolio.</p> <p>The Manager is transparent with respect to key organisational parties governing the Fund. Further information is disclosed within the <a href="#">'Other Material Information'</a> document.</p>
<p><b>Describe the Manager's ESG, Corporate Sustainability policies and engagement.</b></p>	<p>Is ESG integrated into the process? Yes</p> <p>Do you use a third-party provider? Yes, Bloomberg</p> <p>Are positive or negative screens used? Yes</p> <p>Integrated ESG for internally managed assets and negative screen across entire portfolio.</p> <p>Is the business a signatory to the UNPRI? Yes</p>	<p>The Manager employs multiple approaches with respect to responsible investing:</p> <ul style="list-style-type: none"> <li>- integration of environmental, social and governance considerations within the investment process;</li> <li>- corporate engagement and proxy voting; and</li> <li>- screening.</li> </ul> <p>Exclusions include:</p> <ul style="list-style-type: none"> <li>- The manufacture of cluster munitions;</li> <li>- The manufacture of anti-personnel mines;</li> <li>- The manufacture or testing of nuclear explosive devices;</li> </ul>

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	<p>What is the rating? B</p> <p>Does the business have a CSR policy?</p> <p>Generate takes into account ESG and CSR issues which include but are not necessarily limited to:</p> <p>Environmental issues for consideration relate to the quality and functioning of the natural environment and natural systems. These include excessive and harmful: pollution, resource depletion, use of toxic chemicals, and the endangerment of animal species.</p> <p>Governance issues for consideration relate to the governance of companies. These include strong governance structures, appropriate executive control and high levels of transparency. Governance is concerned with the way organisations are governed, as distinct from the way businesses within those companies are managed on a day-to-day basis.</p> <p>Social issues for consideration relate to the rights, well-being and interests of people and communities. These include human rights, health and safety, child labour, community relations and respect for the rule of law.</p>	<ul style="list-style-type: none"> <li>- The processing of whale meat;</li> <li>- The manufacture of tobacco.</li> </ul> <p>Screening takes place four times a year and applies to direct investments as well as investments via underlying funds. One benchmark for exclusions in New Zealand is the <a href="#">NZ Super Fund exclusion list</a>; the Manager is in line with the majority of these.</p> <p>Research IP believe that being a PRI signatory should be considered a bare minimum in this day and age for any fund manager with a focus on environmental, social and governance investment considerations.</p> <p>Proof of the pudding in responsible investing needs deeper evaluation. Research IP believes that fund managers with an ESG focus should be giving attention to the underlying factors of a company that will ultimately benefit stakeholders and create value. In other words, negative screening is not a comprehensive approach by itself to invest responsibly.</p> <p>The Manager provides transparency for investors wishing to evaluate their ESG approach. The Manager's Responsible Investment Policy is available <a href="#">here</a>. PRI signatory reports are released around August each year and can be searched at this <a href="#">link</a>. The Manager's most recent reports can be viewed at the links below:</p> <ul style="list-style-type: none"> <li>- <a href="#">2020 Transparency report</a>; and</li> <li>- <a href="#">2020 Climate Transparency report</a>.</li> </ul> <p>Research IP commends specific actions taken by the Manager in implementing the responsible investment policy to date. The following examples demonstrate the active approach applied by the Manager:</p> <ul style="list-style-type: none"> <li>- Signatory to a <a href="#">collaborative engagement</a> to encourage Facebook, Alphabet and Twitter to strengthen controls to prevent the livestreaming and dissemination of objectionable content.</li> <li>- Significant investment in a community bond where proceeds will be used for specific public housing projects.</li> </ul> <p>Research IP believes over time, as the total funds under management grows, the Manager will need to invest in further resource to maintain an active approach to responsible investment.</p>
<p><b>Is there alignment with the interests of</b></p>	<p>Part of the remuneration is a discretionary bonus which is subject to the performance of the investments.</p>	<p>Research IP believe staff equity ownership of the Manager is evidence of a strong alignment of interest with investors. Research IP</p>

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<p><b>investors through ownership of the Manager and/or remuneration of the investment team?</b></p>	<p>Majority of the investment team are invested in the funds and all own equity in the manager.</p> <p>Privately owned.</p> <p>Privately Owned (significant employee ownership)? Yes</p>	<p>highlights that each of the key individuals accountable for the management of this Fund are shareholders.</p> <p>Additionally, there is alignment between the bonus component of staff remuneration and the performance of the funds/portfolios.</p>
<p><b>Comment on the assets under management, flow and capacity?</b></p>	<p>What is the FUM in this Fund? \$ 1,565,712,045</p> <p>What is the FUM in this strategy (total inc insto mandates)? \$ 1,565,712,045</p> <p>What is the FUM of the manager? \$ 3,279,364,336</p> <p>The fund has grown 3% in the past 12 months to 30 September 2022, with an annual return of -15.48% (after deductions for charges but before taxes) and with net fund inflows of \$308m. Generates' total FUM has grown 2% in the past 12 months.</p>	<p>The Manager has experienced growth in assets under management over the previous year, underpinned by regular KiwiSaver member contributions, though market returns reduced this value somewhat. Total members in the Fund have grown from approximately 65,000 to almost 71,000 over the past year.</p> <p>Research IP believes the Manager has sufficient resource to be able to manage the Fund adequately at present. Further resource is warranted as total FUM grows across the suite of funds offered.</p> <p>Research IP highlights just under 30% of the Fund was managed through external underlying funds within the allocation to international equities as at early 2021. This was reduced to approximately 20% in 2022.</p> <p>As the Fund grows the Manager will benefit from economies of scale in regard to the international equity allocation. Research IP believes the team will need to grow to adequately manage the direct allocation to international equities as FUM increases. Research IP highlights the steps taken by the Manager thus far to add two global equity analysts and appointing WS Portfolio Advisory LLC as sub-portfolio manager in 2022. Additionally, Nathan Field will be added to the global equity team as Portfolio Manager in March 2023.</p>

# The RIPPL Effect

For important Fund Facts, please view the **RIPPL Effect** report:




## Generate KiwiSaver Focused Growth Fund

 RESEARCHIP  
**FUND MANAGER  
OF THE YEAR 2022**


- WINNER -

ADVISER CHOICE  
KIWISAVER

 RESEARCHIP  
**FUND MANAGER  
OF THE YEAR 2022**

- WINNER -

INVESTOR CHOICE  
KIWISAVER

 RESEARCHIP Rating

**P**

**P**

**P**

**P**

**P**


RIPPL Effect

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3 DECEMBER 2022

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- ❖ portfolio managers
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