



RESEARCHIP

Qualitative Fund Research

QuayStreet Income Fund

26 January 2023

NOTE CHANGE: RATING REMOVED

 RESEARCHIP Rating



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

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Research Factor Weighting

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

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

QuayStreet is a specialist funds management firm with a team based in Auckland, New Zealand. QuayStreet offers a range of diversified and sector specific investment funds for investors with varying investment needs and timeframes. More information can be found on their [online profile](#).

QuayStreet's [investment philosophy](#) believes that an actively managed fund with a concentrated selection of investments can provide investors with better returns than market benchmarks.

QuayStreet is a signatory to the United Nations Principles of Responsible Investment ([UN PRI](#)). QuayStreet chose to become a signatory to publicly demonstrate their commitment to the Principles for Responsible Investing, an internationally agreed framework for investment decision making. This will position the Socially Responsible Investment Fund for the long-term and further strengthen QuayStreet's current approach to responsible and sustainable investment.

QuayStreet manages 10 retail funds, including:

- QuayStreet Fixed Interest Fund
- [QuayStreet Income Fund](#)
- QuayStreet Conservative Fund
- QuayStreet International Equity Fund
- QuayStreet Balanced Fund
- QuayStreet Socially Responsible Investment Fund
- QuayStreet Growth Fund
- QuayStreet New Zealand Equity Fund
- QuayStreet Australian Equity Fund
- QuayStreet Altum Fund



Access the full range of [investment options here](#).



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Key Takeouts

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Quantitative Tear Sheet - <https://platform.research-ip.com/funds/68281037>

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	QuayStreet Income Fund
Investment Objectives	
Benchmark	New Zealand Official Cash Rate (OCR) +2%
Alpha Objective	
Management Fee	0.63% management fee (GST inclusive)
Performance Fee	n/a
Estimate of Total Fund Charges	0.77% (inc GST) – 31 March 2021

The QuayStreet Income Fund (“the Fund”) invests in a diversified portfolio with an emphasis on income producing assets which may include listed property, equities and derivatives. The investment objective is to provide returns above the Fund’s benchmark taking into account the prevailing short-term interest rates while preserving the real value of investments relative to inflation. The Fund aims to make quarterly distributions. Investment returns may vary from year to year and may be negative.

Factor	Lower Limit	Upper Limit	Reference
No. of securities in universe			
No. of securities fully researched			
Typical number of holdings			
Expected Portfolio Turnover			
Australasian Equity	0%	30%	10%
International Equity	0%	30%	0%
Listed Property	0%	30%	10%
Unlisted Property	0%	0%	0%
NZ Fixed Interest	0%	100%	70%
International Fixed Interest	0%	100%	0%
Cash	0%	20%	10%
Growth Assets	0%	30%	20%
Defensive Assets	70%	100%	80%

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The Fund will target assets that can provide a sustainable level of income with low levels of volatility in total return. The investments are spread across multiple asset types, geographies, markets, issuers, sectors and maturities to provide a higher level of diversification. The Fund does have the ability to invest in other funds and may use derivatives for the purposes of risk management or to obtain desired market exposures. The Fund's return will be measured in New Zealand dollars and currency exposure will be actively managed in a manner consistent with the investment objectives.

Using this Fund

This Fund would suit an investor who desires income with some capital growth but has limited appetite for capital loss. The Fund is diversified, with holdings across different asset classes, though the primary allocation is a minimum 70% in defensive assets (international and NZ fixed interest). 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 an investor should have a minimum investment time horizon greater than three years.

What the Manager Says?

Insight	Manager view	Research IP opinion
<p>Who is accountable for managing the fund?</p> <p>Is the investment teams work history relevant to the funds they manage?</p>	<p>Roy Cross (Senior Investment Analyst) has been the portfolio manager of the QuayStreet Fixed Interest and Income Funds since 2014. Previously he was a Senior Investment Analyst at Brook Asset Management and jointly managed the Brook Income Fund. Roy Cross has 16 years of experience in financial markets and is also supported by Andrew South (Director of Australasian Equities), who has more than 30 years of experience. Roy and Andrew have worked together for close to 10 years at Brook Asset Management prior to the formation of QuayStreet.</p> <p>The Fund is also backed by an experienced and high quality investment team with all members having input into security selection and asset allocation. The team has been growing over time and is currently recruiting for an additional fixed interest specialist to provide more analytical support.</p>	<p>QuayStreet prefer to operate portfolios in a sole-charge capacity, meaning Cross has ultimate accountability for the Income Fund.</p> <p>Cross exhibits in-depth knowledge of the New Zealand fixed interest space from a bottom-up perspective and a strong focus on the risk versus return arguments when investing in fixed interest securities.</p> <p>Cross is able to leverage the extensive experience of South when determining the risk/return characteristics of certain issuers due to South's knowledge of companies from an equity perspective.</p> <p>Cross will also consider different perspectives on issuers and the macro environment from the rest of the investment team.</p> <p>The length of time Cross and South have worked together is a positive. The addition of another fixed interest specialist will be a benefit as the size of the Income Fund continues to grow, though key person risk still resides with Cross. Research IP considers a high degree of key person risk associated with Cross.</p>

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<p>Has the CIO/ PM personally invested in the Fund? Are they paying the same fees as other investors?</p>	<p>The majority of the QuayStreet Investment Team have a significant proportion of their individual investments allocated across a wide range of QuayStreet Funds. The Investment Team all pay the same fee as other unit holders and there are no financial incentives or discounts provided to any staff to invest in QuayStreet Funds.</p>	<p>Research IP believe that 'eating your own pudding' should be an aspect a potential investor considers when deciding to invest in any financial product. Investing in funds alongside investors and at the same fees, aligns the interests of investment personnel with those of the investors.</p> <p>Research IP acknowledges that due to the number of funds and inter funding of diversified funds into sector funds, it is unlikely the investment team invest in all of QuayStreets' funds.</p> <p>Research IP believe the individual investments of the investment team into QuayStreet funds is in line with best practice.</p>
<p>Why would you allocate to this fund?</p>	<p>The Fund is suitable for investors with a conservative risk profile as was designed as an alternative to traditional fixed interest investments. The Fund has the flexibility to invest in multiple asset classes and geographies but is primarily focused on Australasian corporate bonds.</p> <p>The Fund does have the ability to invest in high yield markets and equity securities which increases the risk profile relative to other fixed interest funds. However these exposures are very carefully managed and the Fund is highly diversified across different sectors, issuers and security types. All international investments are hedged back to NZD</p> <p>The Fund has a strong track record of delivering consistent returns with low volatility. The realized standard deviation of returns has been comparable to other fixed interest funds and well below most other diversified funds.</p>	<p>Many investors around the world are seeking investments that can provide a reasonable yield at present due to historically low interest rates. Where this product differs to other portfolios within the conservative bucket is the ability of the Manager to invest in assets other than cash and bonds. The assets could include high yield or bond-like equities. The key focus of the Manager when investing in these types of securities is the analysis undertaken to understand the true risk of the company and the required return. When analysing the risk/return characteristics of corporate bonds the Manager benefits from the equity team's coverage of companies in Australasia.</p> <p>The Manager aims to balance risk and return across the allowable range of assets. The allocation to risk is not just about the equity allocation. There is a concentrated effort by the Manager to assess volatility at the security level, which consequently flows through to the Fund level, giving it defensive qualities you'd expect for a Fund with a conservative profile.</p>
<p>What are key factors in the buying and selling decisions of the Fund?</p>	<p>Investment decisions are the sole responsibility of the portfolio manager but with regular review and feedback from the entire investment team. QuayStreet follows the same general investment process across all of its funds which has a strong focus on the underlying investment fundamentals of the company or issuer.</p>	<p>There is a definite focus on quality and underlying fundamentals of the issuer and the spread above cash. The Manager attempts to understand idiosyncrasies of the issuers within the market context.</p> <p>Not every security is the same. The Manager does not simply rely solely on where a security sits in the capital structure of a company to ascertain its</p>

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	<p>Regardless of whether the investment being considered is an equity or debt security, we spend a great deal of time understanding all aspects of the investment case. The team uses a combination of internal and externally generated research in this process. This is supplemented by regular meetings with company executives, research analysts, industry contacts, and attendance at industry conferences.</p> <p>Portfolio construction is dominated by a 'bottom up' security selection process where asset allocation is more of an outcome than a specific target. However there is a 'top down' overlay that is specific to The Fund. This involves consideration of macroeconomic factors and asset class correlations and volatility. As with security selection, the team utilises a combination of internal and external research and models for this purpose.</p>	<p>risk but will undertake a broader analysis of the company to gain a better understanding of any downside risks. For example, there may be a case where the Manager would rather invest in a subordinate bond from a good issuer compared to a senior bond from a bad issuer.</p> <p>External meetings are shared across the team. There are no hard and fast rules about who attends which meetings, it is a team approach and encourages broader thinking between the equity-focussed and the bond-focussed parts of the investment team.</p> <p>The top-down overlay provides a framework to forecast the OCR, with hawkish/dovish scenarios assessed with respect to the interest rate exposure within the Fund. This overlay is applied to the NZ, Australian and US yield curves primarily.</p> <p>Internal research is complemented by external research from sell-side equity relationships, trading banks, rating firms and independent macro research firms.</p>
<p>What are the key drivers of the Fund's performance?</p>	<p>The Fund predominantly invests in Australasian corporate bonds where the main drivers of returns are market interest rates and corporate bond credit spreads. The Fund also has exposure to equity and high yield securities which have a higher expected returns but are more strongly influenced by equity market risk premiums.</p>	<p>The Manager's primary driver of performance is its security selection, be it fixed interest (predominantly corporate debt), equity or listed property, and identifying sustainable businesses that generate appropriate yields and are attractively priced.</p> <p>Importantly, company factors are not the sole driver behind security selection, with the Manager considering current economic conditions in determining the Fund asset allocation and security type. Research IP highlights the Fund's SAA may lead to sector overweight or underweight positions, compared to a typical conservative fund.</p> <p>With respect to the equity allocation, though it is only a small allocation within the Fund, the Manager attributes 30% to the industry factors, 30% to governance factors and 40% to valuation factors in their scoring system.</p>
<p>What are the risks of investing in this Fund?</p>	<p>The key drivers of risk for the fixed interest securities are sensitivity to changes in market interest rates and credit spreads. The level of exposure is influenced by the</p>	<p>In terms of risk, a key threat will be inflation currently. The Manager has the ability to invest in inflation-linked bonds to help mitigate this risk. On the equity</p>

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	<p>average maturity and credit rating of the securities in the Fund and some of this risk can be partially offset using interest rate derivatives.</p> <p>For equity and high yield securities the key drivers of risk are sensitivity to equity market direction and volatility as well as individual company or issuer risk. The level of exposure is determined both by the size of the allocation to these securities and concentration of securities within the allocation i.e. individual position size.</p> <p>The Fund has a number of formal and informal investment guidelines to quantify and manage these risks.</p>	<p>side, the Manager will consider companies that have pricing power, for example REITs. The Manager is cognisant of the different risks regarding sub-segments of the property sector. There isn't a large exposure to listed property. Exposure has averaged around 5% over the past three years.</p> <p>Formal documented risk guidelines are supplemented with informal guidelines used internally. The internal risk measures aim to rank the risk/return characteristics of potential investments by considering metrics such as credit ratings, time to maturity, and size of issuer.</p> <p>Furthermore, the Manager specifically scores liquidity risk, especially important following the behaviour of fixed interest markets in March/April 2020. Ultimately the Manager wants to make sure they are getting paid for taking on any liquidity risk.</p> <p>Currency is 100% hedged back to NZ dollars. There are warnings put in place if this deviates by +/- 1%.</p>
<p>On what basis are the fees charged justified?</p>	<p>QuayStreet's fees are transparent, with no buy/sell spreads or entry/exit fees. The Income Fund's total estimated fee is 0.78% p.a. (incl. GST) and there are no performance fees attached. This is a total Fund fee which includes full active investment management, custody, trustee and registry fees.</p>	<p>The Fund's benchmark is the NZ OCR + 2%. The Fund performance has exceeded this on a net of fee basis over periods greater than one year, indicating the active management has produced alpha in excess of what it costs to run the portfolio (as at 31 March 2021).</p> <p>Research IP believes the Manager is transparent from a fees perspective. Fees are disclosed in the Product Disclosure Statement, with additional information in the Other Material Information document.</p> <p>Research IP observes that the manager's basic fee is in the lowest half compared to sector peer relevant funds in New Zealand.</p>
<p>Describe the quality of the organisational and investment governance processes?</p>	<p>QuayStreet was established as a wholly owned subsidiary of Craigs Investment Partners (CIP) in 2014. QuayStreet operates independently to CIP and reports to its own separate Board which is led by an independent chairperson, Mike Allen.</p> <p>In line with best practice, QuayStreet has outsourced the following functions; Fund Accounting (MMC); Trustee (NZGT),</p>	<p>As a wholly owned subsidiary of Craigs Investment Partners (CIP), the Directors of QuayStreet hold a mix of executive and non-executive positions at CIP. None of the investment team hold director roles at either QuayStreet or CIP, providing distinct separation of duties from business operations and investment management, and reflects</p>

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	<p>Custody (Citigroup) and Legal Counsel (Bell Gully).</p> <p>The QuayStreet risk committee, as appointed by the QuayStreet board, is responsible for ensuring compliance with the QuayStreet Risk Management Policy. The responsibilities of the Risk Committee are as follows:</p> <ul style="list-style-type: none"> • monitoring corporate risk • monitor risk and compliance with legislative requirements • review and monitor obligations and compliance with Anti Money Laundering/Countering Financing of Terrorism legislation • review and monitor obligations and conditions of all regulatory licences held by QuayStreet <p>Finally, QuayStreet has in place a two-part compliance framework. The first is the investment decision-making process and trade execution. Primary responsibility here sits with QuayStreet.</p> <p>The second is external compliance oversight of adherence to the Statement of Investment Policy and Objectives (SIPO), legal and regulatory requirements. In both cases, QuayStreet benefits from its CIP ownership structure as this provides the firm with extensive resources across operations, marketing, legal and compliance oversight and monitoring, providing independent risk management and compliance for all QuayStreet funds.</p>	<p>the structure typically adopted by larger institutions.</p> <p>Research IP views the outsourcing of non-investment functions to CIP and external service providers favourably. Overall this provides a solid framework for strong governance and removes administration function from the investment team.</p> <p>Research IP highlights that the Fund's administrator and custodian functions are considered to be material relationships and the Manager should review these key functions annually at a minimum.</p> <p>Research IP would prefer to see the Manager implement a formal investment committee structure, including non-executive members, to assist in the oversight of investment frameworks and asset allocation policies. This is based on the higher number of funds, for the size of the investment team. Further to this the use of a dedicated trader would be seen as industry best practice, separating the investment decision from the buying and selling of securities.</p>
<p>Describe the Manager's ESG, Corporate Sustainability policies and engagement.</p>	<p>QuayStreet defines responsible investing as the incorporation of environmental, social and governance (ESG) factors within its investment decision-making framework. It is our belief that this helps improve risk management and the generation of long-term returns. QuayStreet has in place a firm-wide Responsible Investment Policy with the key points summarised below:</p> <ul style="list-style-type: none"> • ESG factors are explicitly considered in the investment process • QuayStreet does exclude direct investments in certain companies whose business operations, products or services 	<p>The Manager's approach to ESG is driven by underlying fundamentals of each of the investments analysed. The integrated approach is firm wide. In regard to the Income Fund it is less relevant but only because of the smaller allocation to equities and therefore smaller number of companies the Manager needs to monitor and potentially engage with regarding ESG considerations.</p> <p>With respect to bonds, the Manager is always looking at the equity of an issuer where possible, so governance is always important. The Manager will look at ESG risks over the life of a bond.</p>

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	<p>have a detrimental impact on the society or the environment</p> <ul style="list-style-type: none"> • Where securities have voting rights, QuayStreet will actively exercise these rights in the best interests of the client • QuayStreet actively engages with companies where it has direct investments. This is usually through discussion with the Board or management team • QuayStreet does not directly invest in tobacco or weapons manufacturing <p>QuayStreet became a signatory in February 2017 of the Principles for Responsible Investment (PRI).</p>	<p>Environmental issues are considered from a risk point of view, particularly regulatory risk and how that may affect a company's operations.</p> <p>In terms of social, the Manager will consider the culture of a company, management turnover, and overall company ethos.</p> <p>QuayStreet combine internal qualitative ESG research with three external ESG research providers that provide predominantly quantitative ratings. The external research is used mostly as a guide to complement their own research, particularly on governance issues where they have direct contact with management or a more complete understanding of how a company operates.</p>
<p>Is there alignment with the interests of investors through ownership of the Manager and/or remuneration of the investment team?</p>	<p>The Investment Team is strongly aligned to generate strong risk adjusted returns for its unit holders via team and individual KPI's, rather than primarily focusing on growing funds under management for the business. The team together has significant investments and savings across a wide range of QuayStreet funds. One of the primary determinants of profit share for a member of the Investment Team is the Fund's respective performance against its benchmark and comparable peers on a risk adjusted basis.</p>	<p>Research IP believes QuayStreet are well aligned in terms of remunerating the investment team. Remuneration measures are split between two firm specific measures and two fund specific measures across multiple time horizons. The Manager considers peers globally as well as in New Zealand when assessing risk-adjusted performance comparability.</p>
<p>Comment on the assets under management, flow and capacity?</p>	<p>QuayStreet is a leading funds management business in New Zealand. QuayStreet has built a diversified funds management business, focused on delivering strong risk adjusted returns for its clients over the long-term.</p> <p>QuayStreet offers a range of ten PIE and KiwiSaver funds with different risk profiles and geographic exposures. The range of funds has helped to build a client base with a healthy mix of institutional and retail clients. This has allowed QuayStreet to experience strong profitable FUM growth since inception.</p>	<p>Research IP believes the strategy is comfortable in terms of capacity. The Manager is relatively agile at the current size of the Fund.</p> <p>Since inception the growth of FUM has been relatively consistent month to month. The strategy is inherently liquid and can accommodate cash inflows and outflows comfortably.</p>

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The RIPPL Effect

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



QuayStreet Income Fund

RIPPL Effect

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[Glossary of Terms – please explain the jargon in this report](#)

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Research IP has provided client focused qualitative and quantitative financial product and security research since 2015. Research IP was also the consultant to the NZX wholly owned subsidiary FundSource, providing investment research to the New Zealand market since 2015.

Research IP is a specialist investment research provider which is used and trusted by investors & financial advisers for investment, KiwiSaver, Superannuation and other Pension schemes throughout the Asia Pacific region.

Research IP has grown its team and footprint by utilising the specialist skills of its analysts which include;

- ❖ data scientists,
- ❖ equity, bond and alternative asset specialists
- ❖ portfolio managers
- ❖ asset allocation analysts
- ❖ and ratings specialists.

Our experience has been gained in well over 20 years of roles across different facets of the industry, so we understand the key drivers and challenges for managers, as well as the impact for investors and the Financial Advice industry.

By leveraging the skills of specialists, Research IP is able to provide innovative and tailored financial services solutions to the marketplace. 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. We have strong philosophical alignment with John Hagel's work on the possibilities for "Disruption by Trusted Advisors" and John Kay's views in "Other People's Money: Masters of the Universe or Servants of the People".

Research IP delivers high quality quantitative and qualitative fund research to financial advisers and the broader financial services industry. Research IP works with a number of expert providers to source this data. Quantitative data is supplied by a variety of sources, including directly from the Fund Manager, while qualitative research is provided by Research IP.

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