



RESEARCHIP

Qualitative Fund Research

QuayStreet New Zealand Equity 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](#) (UNPRI). 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

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/funds/68079326>

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 New Zealand Equity Fund
Investment Objectives	The QuayStreet New Zealand Equity Fund invests in a portfolio of shares from the New Zealand market, targeting returns above the long term performance of the New Zealand sharemarket.
Benchmark	S&P/NZX 50 Gross Index
Alpha Objective	4%
Management Fee	1.13% management fee (GST inclusive)
Performance Fee	n/a
Estimate of Total Fund Charges	1.28% (inc GST) – 31 March 2021

The QuayStreet New Zealand Equity Fund (“the Fund”) invests predominantly in companies that are in the S&P/NZX 50 Index. However, there may be an allocation to smaller companies listed on the NZX Main Board or to unlisted companies who have the intention of listing on a recognised exchange.

The Fund may also invest in cash, including when there is a lack of suitable investment options available and may use derivatives for the purposes of risk management or to obtain desired market exposures.

Factor	Lower Limit	Upper Limit	Reference
No. of securities in universe			50+
No. of securities fully researched			50
Typical number of holdings			20-40
Expected Portfolio Turnover			25%
Cash			10%

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Using this Fund

This Fund would fit into the growth component of a diversified portfolio. Given the risks mentioned, the profile of the Fund would be suitable for investors with a higher risk profile. Investors should be aware that this type of Fund may experience significant periods of negative returns. Therefore, an investor should have an investment timeframe of at least five 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>Andrew South (Director of Australasian Equities) is the portfolio manager for the New Zealand Equity Fund, Australian Equity Fund and the Altum Fund since 2014. Previously Andrew South was the Chief Investment Officer at Brook Asset Management with overall responsibility for portfolio construction, stock selection and asset allocation for all of Brook's funds. Andrew has over 28 years of experience in financial markets. Andrew is supported by Roy Cross (Senior Investment Analyst), Stefan Stevanovic (Senior Investment Analyst), Xavier Waterstone (Senior Investment Analyst) and Schalk Keyter (investment Analyst).</p> <p>QuayStreet was established in 2014 but the majority of the team have worked together for almost 10 years at Brook Asset Management prior to joining QuayStreet.</p>	<p>The QuayStreet investment team is a tight knit one. There is ongoing discussion around the table both informally and formally on the portfolio. However, the buck stops with Andrew South.</p> <p>South has extensive experience in the Australasian equity space. South previously worked at Brook Asset Management, which wound up in April 2014 by the owner, Macquarie Bank. Both Cross and Stevanovic worked with South at Brook Asset Management.</p> <p>South is well supported by Cross, Stevanovic, Keyter and Waterstone. Cross, Stevanovic, and Keyter are all CFA charterholders, whilst Waterstone holds an MBA from Oxford.</p> <p>Cross is also the Portfolio Manager for the Income Fund and provides expertise to the equity team by way of the macroeconomic factors that may affect the NZ equity market such as inflation and interest rates. Stevanovic is also Portfolio Manager for the Balanced SRI Fund.</p> <p>Waterstone is the newest to join the team (August 2018), he concentrates on research and analysis into Australasian equities and has experience in the Australian superannuation sector.</p> <p>Keyter is an analyst with over 7 years' experience in financial services and is</p>

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		responsible for reporting and investment support.
<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 believes that ‘eating your own pudding’ should be an aspect potential investors consider 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 QuayStreet New Zealand Equity Fund has an objective of generating medium to long term capital growth above the S&P/NZX50 index returns. QuayStreet’s competitive edge is built on a combination of our team’s investment experience in this asset class, wider mandate guidelines, scale/capacity and longer-term focus. This has led to a strong track record of superior risk-adjusted returns for our clients.</p> <p>QuayStreet’s underlying investment philosophy is that an actively managed and concentrated selection of securities can provide better risk-adjusted returns than market benchmarks. For us, the key to achieving this is having a long-term investment horizon and a flexible approach to portfolio construction.</p> <p>This philosophy leads to an investment process that places a high emphasis on understanding the underlying business fundamentals and industry structure. We look beyond current financial metrics as experience has shown us that non-financial considerations become more significant over time. The focus on fundamentals is as much about assessing risks as identifying opportunities, and we tend to exclude investments in companies we consider to be lower quality regardless of the valuation metrics. We have found that the securities we choose not to invest in are just as important as the securities we do.</p>	<p>The Fund is led by bottom-up, fundamental analysis from the Manager, with a good understanding of key drivers of the NZ market at a sector and macro level.</p> <p>The Manager focusses on quality but is also wary of valuation when selecting securities. The Manager has wider allowable ranges around sector weightings in the portfolio. The Manager can choose to stay right out of sector and use cash if the Manager does not like certain sectors. This provides the Manager with a lever to reduce risk in the portfolio if need be. In saying this, the Manager keeps an eye on the Fund’s overall tracking error.</p> <p>Investors that are mindful of environmental, social and governance issues over the long-term can be comfortable with integration of ESG factors which are apparent through the fundamental analysis of different securities.</p> <p>The Manager uses a range of research sources and is aware of the advantages and disadvantages of different research available in the market. The extensive experience of South leads the way in this respect, assessing the merits of a range of sell-side research analysts and their views on specific stocks.</p>

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	<p>Our approach to portfolio construction is to achieve a pragmatic balance between risk and return. Position sizing is based on the level of conviction but with appropriate risk controls to avoid excessive concentration of ideas. Portfolio turnover is relatively low due to the long-term focus as we are less concerned about short term price movements. Where we identify changes to industry structure or business risk, we are quick to exit positions.</p>	
<p>What are key factors in the buying and selling decisions of the Fund?</p>	<p>Our investment process is driven by a combination of qualitative and quantitative analysis, where the relevance of each factor varies depending on company and the sector in which it operates. Some of the core components of the investment process are listed below:</p> <ul style="list-style-type: none"> • Quantitative screening • Sector comparisons • Performance monitoring • External research • Security analysis • Company engagement <p>Underlying the investment process is a high emphasis on understanding the qualitative aspects of any new or existing investment. Our approach to qualitative analysis is based on the Porter's five forces framework where we assess industry risks, attractiveness, and the level of competition a company may encounter. This helps us understand how the evolution of the industry may progress and how the company is positioned within it. Porter analysis specifically assesses the following characteristics:</p> <ul style="list-style-type: none"> • Bargaining power of buyers • Bargaining power of suppliers • Threat of substitutes • Threat of new entrants • Rivalry amongst competitors <p>In addition, we will assess external factors such as technological, social, demographic, and regulatory influences which could create additional opportunities or risks for a company or industry. This includes an ESG assessment which is imbedded in the investment process.</p>	<p>QuayStreet maintain a well-defined investment process. The decision-making framework starts with quantitative screening applied to identify what stocks they should focus their attention on, or to alert the team to stocks they might not be paying attention to within the universe. The quantitative metrics may include return on assets, return on equity, dividend yield and interest rate sensitivity amongst others.</p> <p>Further research is undertaken by assessing the qualitative characteristics of a company. The framework is based around Porter's five forces. This framework was first published in the Harvard Business Review in 1979, named after its originator Michael E. Porter. The framework provides a good basis where the Manager can apply a repeatable process that is in line with their bottom-up, fundamental approach. However, the process still requires nuance given not every industry functions the same way, and some companies will crossover into different sectors dependent on their products/services. The analysis is still subjective and requires discipline by the Manager in its application. Research IP believes the Manager applies the Porter framework effectively.</p> <p>Ideas are developed and expanded on after attending company meetings, conferences and through other industry contacts. Governance is an important part of this process, evaluating the strengths and weaknesses of company management.</p> <p>The investment team will rate the companies as the final step before portfolio construction. A score will be attached to each stock, the team will</p>

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		<p>review each other's scores and the degree of conviction will flow through to the size of a specific stock's holding in the portfolio. Macroeconomic and sector exposures are taken into account in the portfolio construction.</p>
<p>What are the key drivers of the Fund's performance?</p>	<p>The Fund is an actively managed, concentrated portfolio of quality companies. The portfolio construction process is key driver of the Fund's performance. The process is best described as bottom-up with a top-down overlay. Security selection is primarily based on the level of conviction in the investment idea, however position sizes are scaled commensurate to the requirements of the investment mandate. The main factors we consider are:</p> <ul style="list-style-type: none"> •Conviction of view in the investment idea (investment attractiveness) •Benchmark weight relative to portfolio •Total sector weight in the benchmark and the portfolio •Free float market capitalisation and trading liquidity 	<p>Research IP notes that the Manager's primary driver of performance is its security selection – identifying sustainable companies at attractive prices.</p> <p>The Manager attributes 30% to the industry factors, 30% to governance factors and 40% to valuation factors. Research IP notes these weightings are not common in the market but believe these are in line with the long-term, fundamental nature of the Manager's investment approach. Notably governance factors take into consideration Environment, Social and Governance (ESG) policies. This does not imply that the fund is considered an ESG fund. Research IP believes the process underpins all the Manager's funds and is viewed positively. Importantly, company factors are not the sole driving force behind security selection, with the Manager considering current economic conditions in determining the Fund's asset allocation to a sector.</p> <p>Research IP highlights that the Fund is a concentrated fund, which may lead to significant overweight or underweight positions to a sector. However, the Manager maintains benchmark awareness by using tracking error guidelines of 3-6% on the overall Fund.</p>
<p>What are the risks of investing in this Fund?</p>	<p>The QuayStreet New Zealand Equity Fund invests in a diversified portfolio of New Zealand shares that the manager believes will outperform over the long term. Some of the drivers of the value of the Fund moving up and down are listed below:</p> <ul style="list-style-type: none"> • Market risk - Fund returns are directly affected by the overall performance of the financial markets. Therefore, the value of investments may go up and down in response to changes in market conditions, for example prospects of companies, political events, natural disasters, pandemics or 	<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 earnings volatility, return on invested capital and how the Manager's assessment of company risk measures against consensus.</p> <p>Research IP highlights the Manager has few specified constraints, producing what could be perceived as being a very flexible mandate. Investors are relying on the benchmark aware nature of the</p>

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	<p>economic events such as recession.</p> <ul style="list-style-type: none"> • Specific investment risk - Funds hold specific individual securities that may face unforeseen events which affect the value of the underlying business and may reduce the value of the investment. • Asset allocation risk - Fund returns are directly affected by deviation from the target asset class weightings. E.g. cash weight. • Interest rate risk - Interest rate risk is the possibility that an investment held by a Fund will decline in value as a direct result of changes in interest rates. 	<p>Fund to prevent unexplainable risks being introduced.</p> <p>Research IP considers the Manager's scope for this fund to be focused, and being benchmark aware is not likely to introduce significant risks. The Manager monitors the tracking error of the overall Fund using a guideline of around 3-6%.</p> <p>Research IP notes the Fund does not have any sector restrictions, which could see sector risks increase relatively speaking. This does leave a gate open for the manager to deviate materially from the Fund's benchmark if perceived risks in a sector are too great for the Manager to justify investing into.</p> <p>Research IP notes the Manager's use of derivatives in this Fund is primarily to hedge any currency exposure that may be introduced by buying NZ companies listed on the ASX.</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 New Zealand Equity Fund's total estimated fee is 1.29% 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 size of the Manager's gross outperformance of the S&P/NZX 50 Gross Index benchmark over the longer time horizons were comfortably greater than the indirect cost ratio (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 higher 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, taking over the management of the CIP funds launched in 2007. QuayStreet operates independently to CIP and reports to its own separate Board. The Board is comprised of four members and 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), Custody (Citigroup) and Legal Counsel (Bell Gully).</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 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.</p>

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	<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>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 have a detrimental impact on the society or the environment • 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 	<p>The Manager's approach to ESG is driven by underlying fundamentals of each of the investments analysed. The integrated approach is firm wide.</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 ESG research with three external ESG research providers. The external research is used mostly as a guide to complement their own research, particularly on governance issues where they have direct contact with</p>

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	<p>discussion with the Board or management team</p> <ul style="list-style-type: none"> • 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>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 measure 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>The Manager can move straight away should they wish to change the size of a holding in the Fund. The issue of liquidity is not an immediate concern given the size of funds under management. QuayStreet could adjust a specific holding straight to overweight in a couple of days. There aren't many small cap holdings. Stress testing on the portfolio gives an estimate that 95% of the portfolio could be sold down in a day.</p> <p>Larger funds can find it harder to manage the size of holdings in the portfolio, having to incrementally alter portfolio positions slower.</p>

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The RIPPL Effect

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



QuayStreet New Zealand Equity Fund

RIPPL Effect

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

1 JULY 2021

About Research IP

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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