



RESEARCH IP

Qualitative Fund Research

Harbour T. Rowe Price Global Equity Growth Fund

11 May 2020



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

Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score	Maximum Factor Score
Corporate & Investment Governance	15%	4.25	/ 5
Investment Philosophy & Process	20%	4.20	/ 5
People	25%	4.33	/ 5
Portfolio Construction & Implementation	15%	4.00	/ 5
Risk Management	15%	4.00	/ 5
Investment Fees	10%	3.57	/ 5
Overall Average Score		4.12	/ 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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Introduction

Harbour Asset Management Limited (Harbour) formed in December 2009 and commenced operations in January 2010. Harbour is principally owned by Jarden Ltd (Jarden) (at 76.3%, and the balance being owned by Harbour employees. Further details are available [here](#). Harbour outsources its global equities investment to T.Rowe Price (the Manager). T.Rowe Price believes in strategic investing. This has guided how T.Rowe Price has done business for more than 80 years. T.Rowe Price's independent thinking and rigorous research approach can be viewed [here](#). T. Rowe Price believes investment decisions are better informed when Environment, Social, and Governance (ESG) factors alongside more traditional financial, industry-related, macroeconomic and other qualitative indicators are used. Their "A Differentiated Approach to Integrating ESG Analysis" can be viewed [here](#).

Both Harbour and T.Rowe Price provide full transparency and independence around the investing and management of clients' money. Understanding clients is at the heart of any business and is critical to the longevity of an investment manager.

Harbour manages twelve retail funds, including:

- Harbour Australasian Equity Fund
- Harbour Income Fund
- Harbour Australasian Equity Income Fund
- Harbour Australasian Equity Focus Fund
- Harbour New Zealand Equity Advanced Beta Fund
- Harbour NZ Core Fixed Interest Fund
- Harbour Corporate Bond Fund
- [Harbour T.Rowe Price Global Equity Fund](#)
- Harbour Real Estate Investment Fund
- Harbour Long Short Fund
- Harbour Active Growth Fund
- Harbour Enhanced Cash Fund

The funds above are managed by a team of 13 in total, of which eight manage the equity funds. The underlying Manager, T.Rowe Price, has a dedicated team of five people for this Fund. That team leverages a significant analyst and portfolio management team of 150 investment professionals. Harbour's operations team consists of seven people, and in some cases, shares resources with majority shareholder Jarden. Individual bios on the team at Harbour can be found [here](#).

Meet the Manager



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Key Takeouts

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Harbour T.Rowe Price Global Equity Fund – Research IP Quantitative Tear Sheet

<https://platform.research-ip.com/funds/68345578>

Note: FREE to access via registration, updated monthly including performance.

[Factsheet](#)

[Report](#)

[PDS](#)

[Articles / Views](#)

The Fund:

Objectives	Harbour T. Rowe Price Global Equity Growth Fund
Investment Objectives	To provide long-term capital appreciation by investing primarily in a portfolio of securities of companies which are traded, listed or due to be listed, on recognised exchanges and/or markets throughout the world.
Benchmark	MSCI All Country World Index (in NZD)
Alpha Objective	Outperform by 3% p.a. over rolling three-year periods
Management Fee	1.11% management fee (GST exclusive)
Performance Fee	Performance Fee - none
Estimate of Total Fund Charges	1.22% (ex GST) - 2 March 2020
Minimum Timeframe	Medium to long term investment horizon. Minimum 5 years
Portfolio Structure	Portfolio Investment Entity (PIE)
Distributions	The Fund does not intend to pay any dividends, with income generated in the fund reflected in the unit price.
Strategy Inception	21 October 2015 (Harbour initially offered a NZD vehicle) 31 October 2008 (Global Growth strategy was launched by T. Rowe Price)

The Harbour T.Rowe Price Global Equity Growth Fund (“the Fund”) is constructed from the bottom-up, i.e. it is comprised of the companies the portfolio manager considers having the best prospects. In an increasingly interconnected world, the manager is unconcerned which geography these companies are domiciled in and will have exposure to Emerging Markets. The manager, however, does not wish to introduce significant risk into the portfolio by having large deviations in sector weights, and seeks to keep the portfolio broadly sector neutral through time.

The risk of any one company highly impacting the portfolio overall is reduced through management of the number of stocks in the portfolio, and maximum position sizes.

The Portfolio Manager has absolute discretion to invest across countries, regions and sectors within reasonably wide ranges. The Fund has size restrictions which includes limits to individual stocks, with the sector and country weights restricted around the benchmark. The Portfolio Manager leverages the analyst team to identify conviction in companies that might be suitable for the portfolio.

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Factor	Lower Limit	Upper Limit	Relative
Tracking Error	3%	7%	
Cash Allocation	0%	10%	
International Equities	80%	100%	
Australian Equities	0%	10%	
Single Stock Limit	0.3%	5%	
Sector Limits			±10% vs benchmark
Number of stocks	90	145	
Regional limits:			
USA			±20% vs benchmark
Other Countries			±10% vs benchmark
Emerging Markets			±15% vs benchmark
Currency Hedging	0%	100%	(Typically unhedged)

The methodical approach to risk management is reflective of the Manager's complete process to investing client money.

The Fund is expected to be fully invested, with cash a result of cash flow management for the fund, rather than a conscious asset allocation decision.

The Fund is expected to be unhedged, however, it may actively hedge a portion of the Fund's currency exposure.

Funds Under Management (FUM)

FUM	Harbour T. Rowe Price Global Equity Growth Fund
Fund	\$118m (invests into an AUT with FUM of US\$2.099bn)
Strategy	US \$7.379bn
Sector	US\$24.269bn
Manager (Australasia)	US\$9.274bn
Manager (Total Global)	US\$1,206.8bn
Manager comment	T. Rowe price manages US\$937.951 in equities across multiple strategies around the world. Utilising the same research platform.

*at 29 February 2020

The Risks

The Manager is aware of the broad range of risks as identified in the [Product Disclosure Statement \(PDS\)](#), and is mindful of them when constructing and managing the portfolio.

Compared to several very concentrated global equity funds, holding between 20-60 stocks, this fund is significantly more diversified. But compared to the number of stocks represented in the Fund's reference index, it is reasonably concentrated. Unlike highly concentrated funds, this Fund will remain relatively diversified and stock positions will not be significant.

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Using this Fund

The Fund is a 'long only' global equity product that is expected to be fully invested. The Fund will generally sit within the growth component of a balanced portfolio.

The Fund holds a relatively large number of securities at ~150 stocks and endeavours to remain unconstrained by allowing a series of broad ranges across neutral sector positioning. Research IP believes the Fund is suited as a core portfolio holding. The Fund provides a broad diversified exposure to the global share market.

The Fund is subject to equity market risk and movements (both positive and negative) in the 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. The Fund is suited to investors with a minimum investment time frame of five years.

The Fund is actively-managed, while being benchmark unaware. The Fund may exhibit material departures from the sector weights compared to the performance reporting benchmark. The Fund's asset allocation decisions can have a material impact on performance, as well as security selection.

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>Scott Berg is responsible for managing the portfolio and has been at the helm since 2008. After graduating first in his class from Macquarie University in Sydney, Scott went on to work for McKinsey & Company. After two years of management consultancy, one of his clients, a large US consumer business hired him recognising his analytical mind. After a three-year stint he enrolled in Stanford University's prestigious MBA programme where he topped his class. T. Rowe Price hired Scott from Stanford in 2002 and he took over the reins of the portfolio in 2008. Scott is actively involved in testing analysts insights by conducting his own research trips and spends a bit over half his time travelling internationally. Scott is assisted by Hari Balkrishna, with 13 years investment experience and an MBA with distinction from Harvard. Both Hari and Scott draw on T. Rowe Price's platform of over 150 company analysts.</p>	<p>The Portfolio Manager (PM) Berg has 17 years industry experience, and has only ever worked at T.Rowe Price. Berg started in an analyst role, and was mentored by Robert Gensler, who spent 20 years at T.Rowe Price running global investment strategies. With 11 years at the helm, Berg has had to navigate the global financial crisis, and an extended period of global growth. Research IP highlights Berg is very actively engaged in the process, and spends considerable time travelling to meet with company management and better understand local economies and consumers.</p> <p>While Berg is ultimately accountable for the Fund, he is supported by a dedicated team of four. Research IP notes the T.Rowe Price analyst and portfolio management teams have a push-pull relationship, where analysts can champion ideas to the PM, or the PM can engage with the analyst to extract ideas for consideration. Importantly, PMs can conduct company analysis, therefore all investment personnel have analyst responsibilities. Berg is a very active analyst and PM.</p> <p>Since commencing operations in 2009, Harbour Asset Management has specialised in Australasian securities. Harbour has chosen to use external specialists to manage global equities.</p>

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		<p>Harbour acknowledges its skill set is better suited to identifying an underlying manager and fund for global securities, rather than try and manage a global portfolio inhouse. Chris Di Leva is responsible for external manager research at Harbour. While relatively new to Harbour, commencing in 2018, Di Leva has 10 years' experience in manager selection at Mercer Investments.</p>
<p>Has the CIO/ PM personally invested in the Fund? Are they paying the same fees as other investors?</p>	<p>Yes, all of Scott Berg's personal wealth (excluding his home) is invested in the pooled vehicle paying fees. In a further endorsement of the strategy, the T. Rowe Global Equity Growth Fund is used as the Global Equity exposure in the Harbour Income Fund and Harbour Active Growth Fund.</p>	<p>Research IP believes that the interests of investment personnel are better aligned to those of the investors, when investment personnel are significantly invested, and at the same fees.</p> <p>Berg and the Harbour team can invest directly into the fund, at the same fees as investors. Noting Berg invests in to the US parent version of this Fund, not the Harbour T.Rowe Price version.</p> <p>Harbour also has the confidence to use this fund as the global equities allocation in its diversified strategies.</p>
<p>Why would you allocate to this fund?</p>	<p>T. Rowe Price's strong track-record demonstrates its ability to harness the insights of its 150+ stock analysts. To date, Portfolio Manager Scott Berg has delivered this, as demonstrated by the consistency of his stock picks across all global sectors and within geographic regions. T. Rowe Price's competitive advantage lies not in its extensive, highly qualified and skilled platform of investment analysts, but in how it effectively communicates and collaboratively filters their research to distil the best ideas portfolio into best ideas the portfolio.</p>	<p>The Manager highlights that it is a truly global portfolio with broad exposure to less efficient developing countries, and a long track record of generating performance as key differentiators to its approach.</p> <p>Research IP believes macro events have influenced equity markets globally, and this has assisted a sustained growth phase in stock market performance. Should the growth bias change, the portfolio is likely to underperform.</p> <p>Research IP notes Harbour can change the underlying fund manager in the Fund and monitor a shortlisted bench of alternative fund managers, which Harbour can draw from. Changes are not expected to occur often and would most likely require a significant change, such as Berg stepping down.</p> <p>Both Harbour and the Manager outline its case as to why Harbour and T.Rowe Price should be considered by an investor. Harbour and T.Rowe Price believes these factors differentiate them from peers, across their product suite. Research IP</p>

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		<p>believes that, in conjunction with a disciplined approach to investing, the Manager presents a clear rationale as to why a potential investor should consider investing in this Fund.</p>
<p>What are key factors in the buying and selling decisions of the Fund?</p>	<p>T. Rowe Price looks for companies with strong, sustainable earnings growth potential that will benefit from growing end markets and that are less likely to be disrupted. They also ensure the management team has compelling operational and strategic vision as well as an attractive stock price valuation relative to its growth prospects. The portfolio manager decides to sell a company if an analyst covering the stock downgrades their assessment of the company's prospects because of a new information or insights that alter the outlook or there has been an unanticipated deterioration of investment fundamentals; the stock price increases such that it now trades at an unattractive valuation; or, better ideas exist within T. Rowe Price's network of analysts.</p>	<p>T. Rowe Price's bottom up process starts with its proprietary fundamental research, quantitative filtering and analysis. Each analyst follows 30-50 companies, with company visits and face-to-face meetings considered to be the core of the research process. Analysts will use a broad array of valuation metrics, with the Manager holding the view that no one valuation methodology is superior.</p> <p>Macroeconomic inputs assist in framing industry and company analysis, which can impact a view on a company, leading to adding or trimming the portfolio position, or buying and selling a company. Berg is ultimately responsible for portfolio decisions. Berg aims to understand three main drivers of valuation changes, size and scope of a company's revenue or asset growth, a company's ability to convert growth to free cash flow, and potential for further valuation changes.</p> <p>Research IP highlights Berg's judgement is a significant factor in constructing the portfolio. Accordingly, Berg represents significant key person risk, despite the size of the analyst team, and portfolio managers directly related to this Fund.</p>
<p>What are the key drivers of the Fund's performance and risk measures?</p>	<p>The Fund aims to outperform the MSCI All Country World Index (in NZD) by 3% per annum. This is an aim the fund has successfully achieved. Bottom up stock selection is, and has historically been, the main driver of outperformance. The fund tends to be sector neutral with no pronounced tilts towards any of the GICS sectors. Tracking error will fall within a range of 3% to 7% and has historically tracked towards the lower end of that band.</p>	<p>The Fund's performance reporting is available via the Research IP Quantitative Tear Sheet, on the Manager's website and the Disclose website. The Fund will have a five year performance track record post October 2020. This will provide a backdrop for more critical analysis of key performance and risk metrics. The Fund's index is the MSCI All Country World Index (unhedged, in NZ Dollars).</p> <p>Research IP believes the Funds' performance reflects security selection of Berg, the impact of the Managers' growth style bias, and ability to leverage a large analyst team and dedicated support from Balkrishna.</p>

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		<p>Research IP observes the Manager's fundamental process is methodical, and the processes are well structured and consistently implemented. The Manager's process is underpinned by the bottom-up proprietary research conducted by the 150+ strong analyst team. The Manager process seeks to find companies with sustainable long-term competitive advantage.</p> <p>As market dynamics and company strength fluctuate, the Manager is aware that its internal company ratings can also fluctuate. Inputs such as industry, secular, and cyclical analysis influence the proprietary research. This may lead to a loss of conviction in a company or sector, and therefore selling out of portfolio holdings. This is usually reflected in the Manager's view on the long-term sustainability of a company's cashflows, which ultimately drives long term valuations. Research IP notes the turnover of the fund can be high, at ~100%, but notes this materially reduces when taking account of the adding and trimming to existing portfolio holdings.</p> <p>Research IP notes that despite being a growth manager, the portfolio positions are typically longer-term holdings, at 3 years or more. This aligns with the Manager's positioning for long term sustainability of a company's revenue.</p>
<p>On what basis are the fees charged justified?</p>	<p>In order to unearth growth opportunities T. Rowe Price undertakes in-depth research meeting companies, suppliers and customers throughout the world. The company conducts over 5,000 such meetings annually. Critically, despite the strong added value this strategy has achieved, there is no performance fee component to this strategy. Since inception, T. Rowe Price's value added has been three times the total annual fund charge of the fund.</p>	<p>The Fund's basic fee is in line with the sector peer average.</p> <p>Research IP highlights T.Rowe Price conducts a significant number of company visits across its large analyst team. This is significantly higher compared to domestic New Zealand based fund managers who also offer global equity funds. T.Rowe Price's approach is in line with other global equity managers with significant funds under management. The research effort employed by T.Rowe Price is costly, as is that employed by Harbour. Both Manager's believe research is critical to the decision making process and a mandatory cost of operation.</p>

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		<p>The Fund does not charge performance fees.</p> <p>Although no buy/sell spread is typically charged on this Fund, Harbour says that “in some market conditions, Harbour may apply a buy-sell spread to investments, withdrawals or switches in some Funds”. Harbour believes they can typically cross trades and therefore minimise transaction costs. Research IP notes that that this may not always the case and existing unit holders may incur the cost of transactions resulting from investors entering or exiting the funds.</p>
<p>Describe the quality of the organisational and investment governance processes?</p>	<p>T. Rowe Price solely manages third-party client funds (i.e. it does not have a conflict of interest inherent investment banking models, nor does it manage captive insurance money). The Equity Steering Committee is responsible for oversight of the portfolio manager and ensuring the team is functioning well and following process. Additionally, as the issuer of the NZ PIE Fund, Harbour Asset Management periodically reviews T. Rowe Price's suitability as the appointed investment manager.</p> <p>At the organisational level, Harbour's Board is led by an independent chair. Two other independents ensure client's best interests are put first, including a former experienced Portfolio Manager who chairs the Audit & Risk Committee. We have rigorous daily compliance procedures that ensure the portfolio is invested in adherence with its guidelines. We engage PWC to test the firm's operational and compliance processes. This assesses tasks such as the handling of client funds, investment management processes, trade execution, segregation of duties etc. This is an external and independent assessment of our processes. Lastly, an internal risk committee periodically scrutinises the Portfolio Manager's decision making and risk allocation.</p>	<p>T.Rowe Price have a strong governance structure to ensure the portfolio managers remain true to a fund's investment objective. Research IP notes that Harbour retains the ability to appoint another investment manager, should T.Rowe Price no longer remain suitable. Research IP believes Harbour intends there be long term relationships for global equities, and is therefore not likely to replace T.Rowe Price without significant justification.</p> <p>Harbour's governance frameworks start with the composition of the Board and leadership of key Board Committees. In addition to the out-sourced functions, there are sufficient internal personnel in operational roles, to ensure that the investment team members can concentrate on managing the portfolios.</p> <p>The use of external directors for the Harbour Board is considered to be in line with industry best practice. Research IP notes the use of independent members should extend to Board delegated committees and investment committees. The use of external directors is strong, this excludes those representing the major shareholder, Jarden.</p> <p>Harbour has a formal investment committee, which meets on a monthly basis. Research IP believes the structured investment committee process formalises a process and can provide oversight to the investment decisions.</p>

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<p>Describe the Manager’s ESG, Corporate Sustainability policies and engagement.</p>	<p>T. Rowe Price has a responsible investment team and have a proactive and systematic approach to the integration of ESG factors. T. Rowe Price has developed a proprietary tool called the Responsible Investing Indicator Model which assigns a green, orange and red flag to companies. Red and orange flagged companies are then investigated further. The final step in the process is integration, where analysts and portfolio managers use the analysis to incorporate into their investment thesis, company ratings/price targets, engagements, position sizing and proxy voting decisions. There are many examples of T. Rowe Price's engagement, especially with social media companies such as Facebook. T. Rowe Price, like Harbour, are a signatory to the UNPRI.</p>	<p>Both T.Rowe Price and Harbour integrate environment, social and governance (ESG) considerations in the research process. For Harbour this has been the case since inception and this is viewed positively.</p> <p>Specifically T.Rowe Price have a Differentiated Approach to ESG Analysis. The ESG integration process doesn't produce blanket exclusions or prohibitions based solely on any specific environmental or social factor. It a part of the overall evaluation process.</p> <p>Research IP notes that Harbour have included Responsible-Investing factors in their process. Notably Environmental (“E”) and Social (“S”) factors are treated differently to Governance (“G”). Governance is well established, the relationships between companies and the environmental and social aspects are less defined.</p> <p>Both T.Rowe Price and Harbour are signatories to the UNPRI. Investors should be aware that the United Nations Principles of Responsible Investing (UNPRI) are currently relatively loose and that ESG integration has a broad range of interpretations.</p>
<p>Is there alignment with the interests of investors through ownership of the Manager and/or remuneration of the investment team?</p>	<p>All senior investment professionals at T.Rowe Price participate in a long-term incentive plan which offers restricted stock. These shares are vested over a five-year period if the staff continue to meet performance hurdles. Portfolio managers receive a significant amount of variable compensation derived from their long-term relative, risk-adjusted performance. Analysts are remunerated based on the degree to which portfolio managers adopt their recommendations and the value added by those holdings.</p>	<p>Research IP notes that when seeking to appoint an underlying manager for global equities, Harbour specifically looked to identify a fund manager that held similar corporate structures and investment beliefs to their own. They have achieved this objective with T Rowe Price.</p> <p>By being partially owned by its employees and directors, there is strong buy-in from the Harbour team to work hard for the firm's long-term success - this is good news for investors. Both T.Rowe Price and Harbour staff are eligible to participate in long term equity incentive plans. The Manager’s continual development of and commitment to its staff is viewed as market leading.</p> <p>There is alignment between the bonus component of staff remuneration and the performance of the funds/portfolios. Research IP believes that Scott Berg’s</p>

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		<p>significant personal investment in the Fund as a strong alignment to investor experience.</p> <p>Research IP highlights that Harbour's vesting of short-term incentives (cash bonuses) in the Manager's suite of funds is market leading from a New Zealand perspective. This brings enhanced staff tenure and alignment to the interests of investors.</p> <p>The support of largest shareholder, Jarden, is also significant, in both financial terms and operational support.</p>
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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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