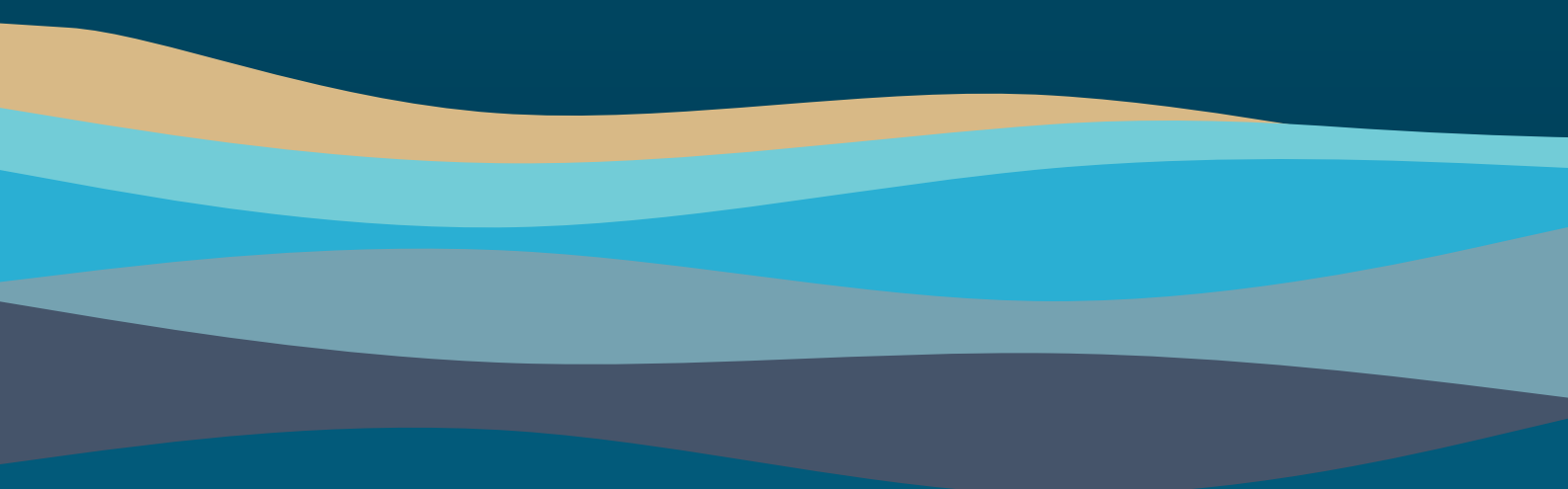




Harbour Investment Funds Climate Statements

30 June 2024



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Introduction

About this report

This report is the first climate-related disclosure (CRD) document for the Harbour Investment Funds Scheme prepared in accordance with the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 and the associated External Reporting Board (XRB) Aotearoa New Zealand Climate Standards, CS 1 – 3. This document builds on the climate disclosure Harbour has been voluntarily reporting through various documents such as our annual sustainability report and represents an evolution of integrating climate considerations into our responsible investment approach and broader investment process.

Scope

Harbour Investment Funds is a Managed Investment Scheme (Scheme) for the purposes of the Financial Markets Conduct (FMC) Act 2013. As at 30 June 2024 Harbour Investment Funds has 15 Investment Funds (Funds) on offer, as listed below:

- Harbour Australasian Equity Fund
- Harbour Australasian Equity Focus Fund
- Harbour Australasian Equity Income Fund
- Harbour Real Estate Investment Fund
- Harbour Sustainable NZ Shares Fund
- Harbour NZ Index Shares Fund
- Harbour Long Short Fund
- Harbour Enhanced Cash Fund
- Harbour NZ Core Fixed Interest Fund
- Harbour NZ Corporate Bond Fund
- Harbour Income Fund
- Harbour Active Growth Fund
- Harbour T. Rowe Price Global Equity Fund
- Harbour T. Rowe Price Global Equity Fund (Hedged)
- Harbour Sustainable Impact Fund

Harbour Asset Management Limited (Harbour) is the licensed manager of the registered Scheme under the FMC Act and the investment manager for all Harbour Investment Funds with the exception of the Harbour T. Rowe Price Global Equity Fund and

Harbour T. Rowe Price Global Equity Fund (Hedged), which is managed by T. Rowe Price Australia Limited. Some Harbour Funds (the Harbour Income Fund, Harbour Active Growth Fund and Harbour Sustainable Impact Fund) may allocate to external managers.

Harbour has reported common information applicable across the Funds in this Scheme to avoid unnecessary duplication in accordance with NZ CS 3.

The CRD is provided to inform readers but does not take into account any circumstances of the reader, nor should it be regarded as financial advice or earnings guidance, nor is it audited. As a result, readers should make their own assessments and not place undue reliance on this CRD.

This CRD contains statements that are, or may be deemed to be, forward-looking statements, including climate-related risks, and opportunities.

Many of the assumptions, standards, metrics, and measurements used in preparing this CRD continue to evolve and are based on assumptions believed to be reasonable at the time of preparation but should not be considered guarantees. The measures and forward-looking statements in this CRD reflect Harbour's best estimates, assumptions, and judgements as at the date of the CRD. Certain statements made in this CRD including in relation to climate-related scenario analysis and risk assessment use a greater number and level of assumptions and estimates and are over longer time frames than many other disclosures. These assumptions and estimates are highly likely to change over time.

Important note

On the 30th April 2024, Harbour became part of a group of investment and advisory businesses ultimately owned by FirstCape Group Limited (FirstCape). FirstCape is jointly owned by interests associated with National Australia Bank Limited (NAB), Jarden Wealth and Asset Management Holdings Limited (Jarden) and Pacific Equity Partners (PEP). NAB is a licensed bank in Australia and is the parent company of BNZ. Following the end of the reporting period, some FirstCape staff participated in an employee share scheme, entitling them to equity interests in the FirstCape.

Statement of Compliance

The following adoption provisions have been applied in preparation of these Climate Statements:

- **Adoption Provision 1** – Current financial impacts: exemption from disclosing the financial impacts of the current physical and transition impacts identified in the first reporting period.
- **Adoption Provision 2** – Anticipated financial impacts: exemption from disclosing the financial impacts of the anticipated physical and transition risks and opportunities identified in the first reporting period.
- **Adoption Provision 3** – Transition planning: exemption from disclosing the transition plan aspects of the Funds in the Scheme as well as the alignment of these aspects with internal capital deployment and funding decision making processes in the first reporting period.
- **Adoption Provision 6** – Comparatives for metrics: exemption from disclosing comparative information for each metric (with the immediately preceding two reporting periods) in the first reporting period.
- **Adoption Provision 7** – Analysis of trends: exemption from disclosing the main trends from comparative metrics in the first reporting period.

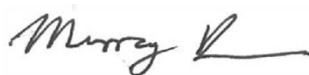
Harbour has used these adoption provisions as permitted by NZ CS 2, in recognition that some disclosure requirements take time to develop the capability of providing high quality information and therefore are exempt from mandatory reporting in the first year. Taking this into account, Harbour has complied with all requirements of the XRB's NZ Climate Standards in preparing and reporting these Climate Statements.

As noted in the Introduction section, many of the assumptions, standards, metrics, and measurements used in preparing this CRD continue to evolve and are based on assumptions believed to be reasonable at the time of preparation but should not be considered guarantees. The measures and forward-looking statements in this CRD reflect Harbour's best estimates, assumptions, and judgements as at the date of the CRD. There are a variety of factors that may contribute to gaps in data coverage, and ambiguity over the quality of data. These factors include (among other things) complexity in data measurement, lack of verifiability or validity of such data, and varying timeliness of data availability.

These Climate Statements have been approved by the Board and authorised for issue on 10 October 2024. They are signed on behalf of the Board by:



Andrew Bascand - Director



Murray Brown - Director

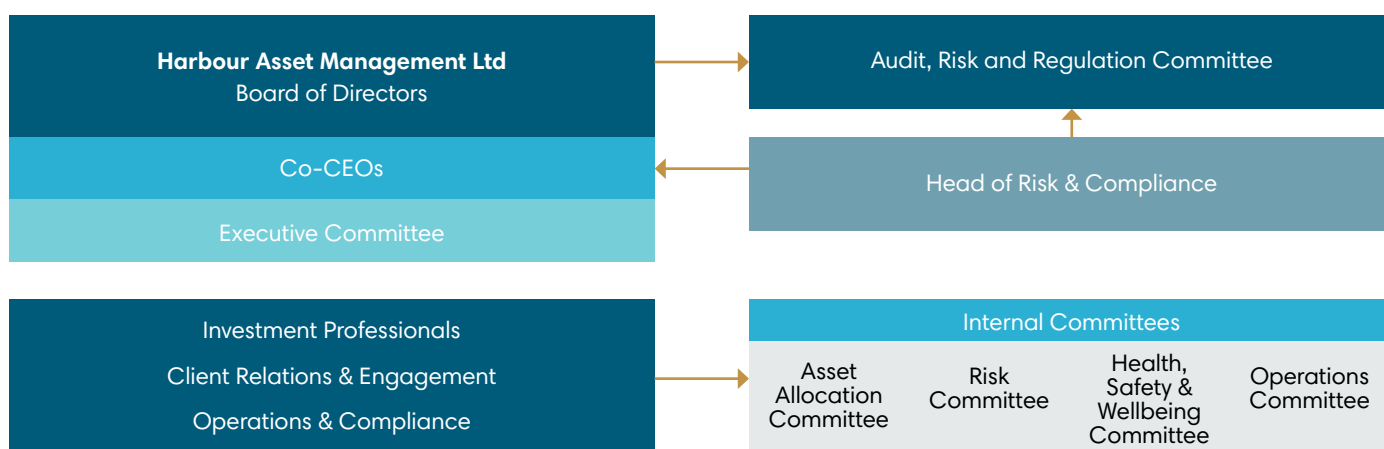


Executive Summary

The information in these climate statements has been presented in a structure aligned with the NZ Climate Standards that is based on four key pillars: governance, strategy, risk management and metrics and targets. A short summary of the key disclosures under each of these pillars is provided below.

Governance:

Ownership: FirstCape Group Limited 100%



Harbour is the manager of the Scheme. Harbour's Board of Directors has primary responsibility for the oversight of climate-related risks and opportunities for the Funds that comprise the Scheme.

The Board utilises the Audit, Risk and Regulation subcommittee (ARRC) to assist in the oversight of climate risks and opportunities, particularly in the approval of regulatory documents. This subcommittee is chaired by one of the independent directors of the Board.

Climate change initiatives relating to our investments are the responsibility of our Manager of ESG Research along with portfolio managers. These initiatives include the research and engagement program, policy submissions, and reporting and communication.

Portfolio managers are responsible for integrating climate considerations within the funds they manage according to the respective investment guidelines and the [Harbour-ESG-Policy](#).

Strategy

Climate-related risks and opportunities are considered alongside other fundamental factors by our research analysts when forming an investment thesis on a company. For our Australasian equity funds this leads to an analyst conviction rating which then feeds into our overall investment process in addition to other Environmental, Social and Governance (ESG) and quantitative factors that are used to rank companies in the investment universe.

This investment ranking framework is used by equity portfolio managers in the decision-making process for portfolio construction and the allocation of capital to particular investment opportunities.

Fixed income funds utilise the same research inputs but adopt a separate investment framework involving a three-tiered classification system where securities are either favoured, neutral or avoided in portfolios.

Global and Multi-Asset funds that involve external managers follow an appointment and monitoring process according to our ESG policy that ensures the meaningful integration of ESG factors into their investment decision making process.

At the portfolio level, we expect climate related risks and opportunities to have an impact across the following aspects:

- Returns
 - Change in earnings growth and share prices of listed equities
 - Change in valuation of portfolio's current bonds
- Credit spread and rating
 - Change in valuation of current bonds could cause credit spreads to widen/narrow further
 - Increased/decreased credit quality of the portfolio
- Value at risk (likely to increase under more aggressive physical climate scenarios)
- Liquidity and cash flow
 - Increase/decrease in dividends from listed equities could impact fund distributions to investors
 - Increased/decreased probability of default could impact portfolio's expected cash reserve/cash flow
 - Increased/decreased difficulty to sell shares/bonds (and at a reduced price)

Risk Management

Harbour uses a combination of in-house and ESG data provider research to identify and assess the impact of climate-related risks.

Harbour conducts in-house climate research as part of the overarching ESG integration approach, involving the analysis of multiple factors within Harbour's Corporate Behaviour Survey.

In addition, MSCI's climate value at risk (CVaR) product enables us to measure portfolio level exposure to physical and transition risks. This calculation involves selecting different global temperature warming scenarios to estimate the value at risk broken down by physical and transition as well as an aggregate exposure.

Assessment of climate change risk forms part of Harbour's quarterly risk committee meetings along with other investment and business risks. An assessment of climate risk is made across portfolios using relevant metrics such as carbon footprints and emissions attributions. An overall traffic light indicator (high, medium, low) for inherent and residual climate risk is then determined which contributes to the holistic business risk score.

Key Metrics

- Financed emissions - measures the total absolute emissions financed by investors in the fund.
- Weighted average carbon intensity - measures the fund's exposure to carbon intensive companies.

Fund	Financed Emissions (tCO ₂ e) ¹	Weighted Average Carbon Intensity (tCO ₂ e / NZD M sales) ¹
Harbour Australasian Equity Fund	2,044	47
Harbour Australasian Equity Focus Fund	166	21
Harbour Australasian Equity Income Fund	641	77
Harbour Real Estate Investment Fund	101	16
Harbour Sustainable NZ Shares Fund	3,570	41
Harbour NZ Index Shares Fund	18,459	61
Harbour Long Short Fund	132	49
Harbour Enhanced Cash Fund	1,541	16
Harbour NZ Core Fixed Interest Fund	406	5
Harbour NZ Corporate Bond Fund	2,285	14
Harbour Income Fund	3,119	44
Harbour Active Growth Fund	570	59
Harbour Sustainable Impact Fund	112	62
Harbour T. Rowe Price Global Equity Fund	6,241	51
Harbour T. Rowe Price Global Equity Fund (Hedged)	1,189	51

Please refer to the Metrics and Targets section as well as the Appendices for further information on the assumptions and limitations of this data.

¹ Source: Harbour, MSCI, Bloomberg as at 30 June 2024

Governance

- Governance body
- Management

Harbour's governance of climate-related impacts is outlined in this section, covering our governance body responsible for oversight, the roles and responsibilities of our management team and how these all tie together through the various reporting lines in our organisational structure.

Governance body

Oversight

Harbour is the manager of the Scheme. Harbour's Board of Directors has primary responsibility for the oversight of climate-related risks and opportunities for the Funds that comprise the Scheme.

During the reporting period, Harbour's Board comprised four independent directors (including an independent Chair), the Managing Director and two other non-independent directors. Following the end of this reporting period, the Board composition changed (publicly available at www.companiesoffice.govt.nz) and there was a leadership change that resulted in a Co-CEO structure where the Managing Director is now Co-CEO/CIO and joined by a newly appointed Co-CEO.

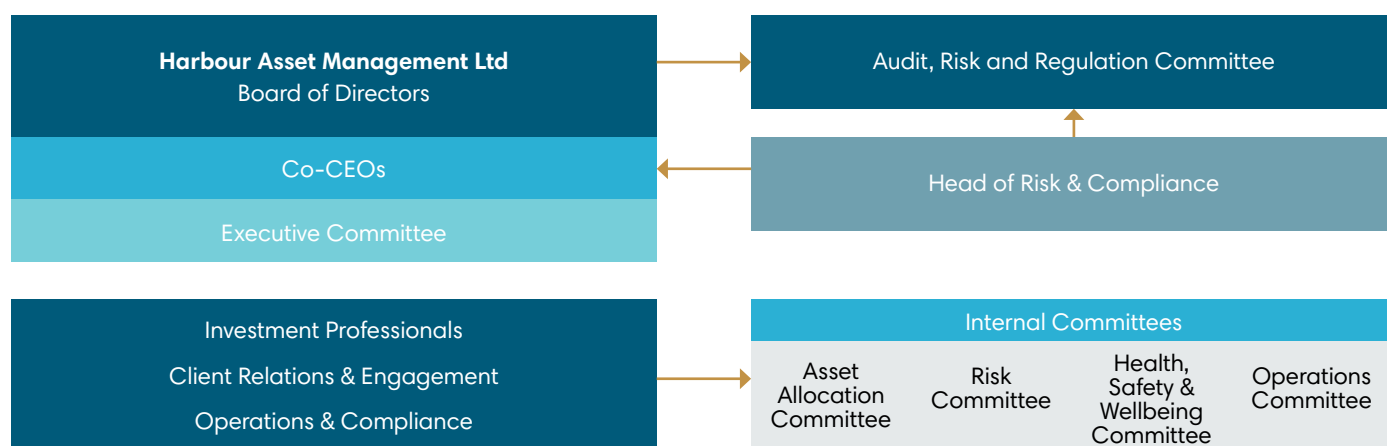
The Board utilises the Audit, Risk and Regulation subcommittee (ARRC) to assist in the oversight

of climate risks and opportunities, particularly in the approval of regulatory documents. This subcommittee is chaired by one of the independent directors of the Board.

The ARRC and main Harbour Board oversee the overall risk assessment matrix for Harbour, which is the main output of the internal quarterly risk committee meetings, attended by senior management, covering a broad range of investment and business-related risks. Environmental, social and governance risks including climate change are included as part of this assessment.

The change in ownership in Harbour by the newly formed FirstCape, as noted in the background information, may see some aspects of climate governance for the Scheme evolve overtime.

Ownership: FirstCape Group Limited 100%



Reporting

Harbour's Board receives reporting on risk assessment outputs (including climate) from management on a quarterly basis following each risk committee meeting. Climate risks and opportunities for our investment portfolios are assessed and integrated into the overall risk management framework. More detail on this process is provided in the risk management section of this report.

The Board also receives updates from management on an ad hoc basis during board meetings where appropriate, such as being informed of progress towards disclosure against these regulatory climate standards.

Skills and competencies

The Board endeavours to ensure that there is an appropriate balance of relevant expertise, shareholder representation, experience, diversity, and independence to promote the sound governance of Harbour. The Harbour Board has included in its work program going forward a 'Review and Evaluation' assessment for all its directors.

The Board has the ability to seek external advice where appropriate, including on matters pertaining to environmental issues. Climate educational sessions for the Board will be held each year going forward to ensure they are kept up to date with the latest developments, especially the evolving regulatory requirements.

Strategy

Any change in ESG policy or fund design with respect to climate considerations is subject to board consideration and approval to ensure consistency with Harbour's overall responsible investment strategy. A review of Harbour's ESG policy is conducted annually or more frequently if required. The development and implementation of Harbour's strategy primarily sits with the Managing Director (currently Co-CEO/CIO) who is a member of the Board and receives feedback and oversight from the other directors.

Performance and remuneration

Sustainability is one of the key performance objectives of the company. An overall assessment is made with respect to sustainability performance at the Board's discretion which in part contributes to total firm remuneration outcomes.



Management

Responsibilities

Climate change initiatives relating to our investments are the responsibility of our Manager of ESG Research along with portfolio managers. These initiatives include the research and engagement programme, policy submissions, and reporting and communication.

The Manager of ESG Research is part of the equity team, overseeing the overall coordination of these climate initiatives and working with the ESG leads across the fixed interest and multi asset teams for asset-class specific considerations. Following the end of the reporting period, a change in organisational structure has resulted in the formation of a new Responsible Investing (RI) team, comprising an RI Senior Manager and the Manager of ESG Research.

Portfolio managers are responsible for integrating climate considerations within the funds they manage according to the respective investment guidelines and ESG policy.

Management engagement with the Board relating to climate initiatives occurs in the form of regular risk committee meetings where the Manager of ESG Research provides inputs on climate investment risk as well as ad hoc updates at scheduled Board meetings as needed.

These risk committee meetings occur on a quarterly basis with Board meetings typically taking place at least four times per year.

Process and monitoring

Harbour's research program with respect to climate change includes the bottom-up analysis of individual company disclosures on the topic as well as synthesising information collected from other sources including external ESG data providers, sharebroker specialists and other industry bodies. Climate-related issues affecting companies in our investment universe are subject to analysis conducted by our research analysts on our investment team, along with all other fundamental and quantitative considerations affecting the company. This is also formally integrated into our investment process through our ESG survey that includes numerous questions on climate change. These surveys involve engaging companies to gain further information and to facilitate improvement. This feeds into our overall assessment of how well each company manages its ESG considerations through a score which is then integrated along with other factors in our investment-ranking framework for Australasian equity funds. This framework is used by portfolio managers in the decision-making process for portfolio construction and, all else equal, a company inadequately accounting for climate change would receive a lower score and a reduced weight (or zero holding) in our portfolios.

Fixed income funds utilise the same research inputs but adopt a separate investment framework involving a three-tiered classification system where securities are either favoured, neutral or avoided in portfolios.

Harbour's Manager of ESG research and the wider investment team collect climate information for the ESG survey of New Zealand issuers on an annual basis, given this aligns with the frequency that this information tends to be provided to the market. However, information such as any acute climate-related events or external research reports affecting companies under coverage is received by the team in real time through our varying data sources.



Strategy

- Current Impacts
- Scenario Analysis
- Expected Impacts
- Fund Strategy Implications

Harbour's strategy with respect to climate-related impacts are described in this section. This covers both backward looking and forward-looking aspects of climate impacts as well as the implications for portfolio outcomes. This also includes a scenario analysis that facilitates the assessment of potential risks and opportunities in different future states of the world.

Current Impacts

Harbour has identified the following examples of climate impacts that have affected companies held in the Funds that comprise this Scheme over the reporting period. At the fund level, these impacts are reflected in the changing market value of our investments in each company affected, which flows through to the overall return delivered to investors. The attribution of these impacts is difficult to quantify, given the many other non-climate-related impacts that the companies would face over the period.

Cyclone Gabrielle – February 2023 (physical)

Although this extreme weather event occurred before the beginning of the reporting period, many of the resulting impacts and costs incurred by companies were reflected in the current period.

The company most impacted from this event that was held across multiple equity funds was Scales Corporation, a diversified agribusiness operator that includes a horticulture business line. According to the company, the cyclone resulted in extensive damage to three of its orchards which significantly affected its annual export crop. It led to an asset write down at Mr Apple with a pre-tax earnings impact of \$11.2 million according to the company's interim result in August 2023.

Another company significantly affected by the cyclone but less commonly held across the Funds was Napier Port Holdings. The company noted in its full year results in November 2023 that container volumes decreased significantly following the closure of wood pulp and timber mills as well as

crop losses that led to lower produce and other chilled exports. These impacts directly resulted from the cyclone and particularly affected log export volumes due to less harvesting post cyclone and damaged roading infrastructure. Other companies such as Summerset, Channel Infrastructure and Contact Energy noted temporary operational disruption but minimal physical damage to their assets.

Wellington region tornado December 2023 (physical)

Stride Property, a company held across multiple equity funds noted that a local severe weather event that resembled a tornado impacted its Queensgate and Johnsonville Shopping Centers. Both shopping centers were affected by flooding and, in the case of the Queensgate Centre, there were broken windows and canopy damage from the event. However, there was a minimal cost impact due to the damage being covered by insurance with a small deductible.

Insurance costs (transition)

Multiple companies noted that the costs associated with insurance programs have increased over the past year. For example, Oceania noted in its climate statement this year that the significant weather-related events of 2023 contributed to caps on insurance cover as well as increases in insurance premiums and policy excesses for the company. This trend has been observed and noted by other companies such as Manawa Energy and Kiwi Property Group.

Inflation Reduction Act (opportunity)

The introduction of the Inflation Reduction Act (IRA) in the United States of America (USA) has seen many companies take advantage of this opportunity including the utilities sector through policy support for clean energy. For example, Constellation Energy – a USA based power generator held in the T. Rowe Price Global Equity Fund stated in its latest sustainability report that the IRA has enabled the company to reexamine capital expenditure options that were previously uneconomic due to poor market conditions. As a result, Constellation has invested \$800m in new equipment to increase the capacity of two of its nuclear plants in Illinois by 135MW.

Scenario Analysis

Climate-related scenario analysis involves the development of multiple, plausible future states of the world according to differing pathways in physical, regulatory and economic settings. This helps to identify potential risks and opportunities that may impact the Funds and to test the resilience of the portfolio strategies.

Harbour has used three-climate related scenarios that are consistent with sector level work led by the New Zealand Financial Services Council to develop climate scenario narratives for the investment services and insurance sectors. We participated in the consultative approach taken and have adopted its outputs as a base to provide comparability with other investment managers in New Zealand. This process is a standalone qualitative approach and the approach and chosen scenarios have been reviewed by Harbour's Board and Managing Director (currently Co-CEO/CIO).

In addition, Harbour has utilised portfolio-level scenario analysis features from our third-party data provider MSCI. MSCI's CVaR product has a range of scenarios available that are aligned with credible global climate models such as the Network for Greening the Financial System (NGFS). The scenarios described below have been purposefully selected to conform to the requirements of the regulatory climate standards as closely as possible and provide useful outputs to represent the resilience of the portfolios to these potential future states of the world.



Orderly (1.5 degrees)

This scenario represents an orderly transition to a low carbon global economy. It is consistent with a global temperature pathway limited to 1.5 degrees and the world reaching net zero emissions by 2050. It assumes a steady and constant shift in technology, policy, and behaviour to achieve this transition, facilitated by a rising carbon price to reinforce this change. Action toward reducing emissions is prioritised over using offsets to accelerate the progress in decarbonisation. This strong and timely action will help to mitigate the worst anticipated impacts of climate change, however some chronic impacts from past emissions will still occur. Overall, out of all three scenarios analysed, this represents the lowest level of physical risk with a medium level of transition risk.

Hothouse (> 3 degrees)

Under this scenario, there is minimal action taken to move towards a low carbon global economy and it is closest to current policies or a business-as-usual pathway. As a result, there would be an increased use of fossil fuels and limited initiatives to curb greenhouse gas emissions, leading to global temperatures rising above 3 degrees over the long term. It assumes there are less drivers for a low carbon transition such as the lack of technology development, unhelpful policy and low and ineffective carbon prices. The higher average temperatures then mean that there would likely be an increased frequency and severity of extreme weather events. Overall, relative to the other scenarios, this represents the highest level of physical risks and lowest level of transition risk.

Too little too late (> 2 degrees)

This scenario represents a delayed and misaligned transition to a low carbon global economy. It is aligned with a temperature warming pathway that is greater than 2 degrees but less than 3 degrees. It assumes there is some action taken to mitigate emissions and the use of fossil fuels, although it is uncoordinated and insufficient to minimise climate impacts long term. This lack of coordination would likely be evident through policy settings and behaviour diverging between countries with some taking rapid action to pursue net zero emissions by 2050 while others maintain the status quo or start late in changing their practices. As a result, carbon prices, technological developments and levels of investment would vary on a geographic basis but ultimately still lead to a higher likelihood of more frequent, severe weather events over the long term. Compared with the other scenarios, this represents a high level of transition risk and medium level of physical risk.

Scenario characteristics

For further detail on the underlying assumptions on macroeconomic and climate modelling please refer to the summary table of scenario characteristics provided in Appendix 1.

Risks and Opportunities

The table below summarises the qualitative climate risks and opportunities identified from the scenario analysis across the Funds in the Scheme.

Physical risks are largely prevalent for those companies operating in the agriculture and infrastructure sectors that have assets exposed to extreme weather events like floods and droughts. These risks are highest under a “Hothouse” scenario as demonstrated by the greater value at risk modelled in the Metrics and Targets section.

Transition risks are primarily policy-related, affecting those companies with high direct and/or value chain emissions. These companies operate in emissions-intensive industries including utilities, transport and agriculture and may face policy risks such as carbon price obligations and stringent regulation leading to stranded assets.

The main climate opportunity identified across portfolios is the greater demand for renewable energy as the world transitions to a low carbon economy. Companies that are generating and selling renewable electricity such as those noted will benefit from capitalising on this opportunity which would be most prominent under an “Orderly” scenario.

The scenario analysis undertaken involving the identification of these risks and opportunities has been a recent development and, as such, has not been formally integrated into the existing investment decision-making process. However, these are largely captured indirectly through the holistic fundamental research our investment team conducts when forming a thesis on a company as well as from climate indicators that form part of our Corporate Behaviour Survey (Harbour’s main ESG assessment tool).



Issuer	Scenario	Risk/Opportunity	Physical/Transition	Sector	Geography	Time Horizon	Fund	Potential Impact
Risks								
Scales	Hothouse, Too Little Too Late	Coastal flooding, extreme heat risk	Physical	Agriculture	New Zealand	Short-Medium	a, b, c, f, g, k, l	Medium
Mercury Energy	Hothouse, Too Little Too Late	River low flow risk	Physical	Utilities	New Zealand	Short-Medium	b, c, e, f, i, k, l	Medium
Port of Tauranga	Hothouse, Too Little Too Late	Coastal flooding risk	Physical	Industrials	New Zealand	Short-medium	b, c, d, l, k, l	Medium
IAG	Hothouse, Too Little Too Late	Multiple weather hazards	Physical	Financials	Australia	Short, Medium	h, i, j	Low
LG Chem	Hothouse, Too Little Too Late	Coastal flooding risk	Physical	Materials	South Korea	Short-medium	m, n	Low
Las Vegas Sands Corp	Hothouse, Too Little Too Late	Coastal flooding risk	Physical	Consumer Discretionary	US, China, Singapore	Short-medium	m, n	Low
Napier Port	Orderly, Too Little Too Late	Coastal flooding risk	Physical	Industrials	New Zealand	Short-medium	h, k, l	Low
Contact Energy	Orderly, Too Little Too Late	Policy risk from direct emissions	Transition	Utilities	New Zealand	Medium	a, b, c, e, f, h, i, j, k, l	Medium
Genesis Energy	Orderly, Too Little Too Late	Policy risk from direct emissions	Transition	Utilities	New Zealand	Medium	h, i	High
Fonterra	Orderly, Too Little Too Late	Policy risk from direct and value chain emissions	Transition	Agriculture	New Zealand	Short-medium	h, l, j	High
Toyota Finance NZ	Orderly, Too Little Too Late	Policy risk from value chain	Transition	Transport	New Zealand	Medium	h, j	Low
Fletcher Building	Orderly, Too Little Too Late	Policy risk from direct emissions	Transition	Industrials	New Zealand	Medium	a, b, c, e, f, k, l	Low
Mainfreight	Orderly, Too Little Too Late	Policy risk from direct emissions	Transition	Transport	New Zealand	Medium	a, b, c, e, f, g, k, l	Medium
BHP Group	Orderly, Too Little Too Late	Policy risk from direct and value chain emissions	Transition	Materials	Australia	Medium	a, f, g, k, l, m, n	High
a2 Milk	Orderly, Too Little Too Late	Policy risk from value chain emissions	Transition	Consumer Staples	New Zealand	Medium	a, b, c, f, g, k, l	Low

Issuer	Scenario	Risk/Opportunity	Physical/Transition	Sector	Geography	Time Horizon	Fund	Potential Impact
CF Industries	Orderly, Too Little Too Late	Policy risk from direct emissions	Transition	Materials	US	Medium	m, n	Low
Targa Resources	Orderly, Too Little Too Late	Policy risk from direct emissions	Transition	Energy	US	Medium	m, n	Low
Opportunities								
James Hardie Industries	Hothouse, Too Little Too Late	Climate resilient product opportunity	Physical	Materials	Australia	Long	a, f, g, k, l	Medium
Fletcher Building	Hothouse, Too Little Too Late	Climate resilient product opportunity	Physical	Industrials	New Zealand	Long	a, b, c, f, k, l	Medium
Meridian Energy	Orderly, Too Little Too Late	Renewable demand opportunity	Transition	Utilities	New Zealand	Short, medium, long	b, c, e, f, k, l, o	High
Mercury Energy	Orderly, Too Little Too Late	Renewable demand opportunity	Transition	Utilities	New Zealand	Short, medium, long	b, c, e, f, l, j, k, l, o	High
Manawa Energy	Orderly, Too Little Too Late	Renewable demand opportunity	Transition	Utilities	New Zealand	Short, medium, long	i, j, k, l	High
Contact Energy	Orderly, Too Little Too Late	Renewable demand opportunity	Transition	Utilities	New Zealand	Short, medium, long	a, b, c, f, h, l, j, k, l, o	High
Infratil	Orderly, Too Little Too Late	Renewable demand opportunity	Transition	Financials	New Zealand	Short, medium, long	a, b, c, d, e, f, g, k, l	Medium
Calix	Orderly, Too Little Too Late	Sustainable technology opportunity	Transition	Materials	Australia	Medium	a, f, k, l, o	High

- (a) Harbour Long Short Fund
- (b) Harbour NZ Index Shares Fund
- (c) Harbour Sustainable NZ Shares Fund
- (d) Harbour Real Estate Investment Fund
- (e) Harbour Australasian Equity Income Fund
- (f) Harbour Australasian Equity Fund
- (g) Harbour Australasian Equity Focus Fund
- (h) Harbour Enhanced Cash Fund
- (i) Harbour NZ Corporate Bond Fund
- (j) Harbour NZ Core Fixed Interest Fund
- (k) Harbour Income Fund
- (l) Harbour Active Growth Fund
- (m) Harbour T. Rowe Price Global Equity Fund
- (n) Harbour T. Rowe Price Global Equity Fund (Hedged)
- (o) Harbour Sustainable Impact Fund

Time Horizons

	Short Term	Medium Term	Long Term
Time Horizon	1 – 3 years	5 – 10 years	25+ years
Year Relative to 2024	2026	2030	2050

These time horizons have been adopted in collaboration with other industry peers as part of a scenario narratives project to help provide comparability and consistency between climate related disclosures.

In addition, these time periods generally align with net zero and interim targets that are prevalent amongst portfolio constituent companies.

Expected Impacts

The table of risks and opportunities above includes a qualitative assessment of the expected impacts across the Funds in the Scheme on a scale of low, medium and high.

Harbour has applied a materiality lens in making these assessments based on multiple factors:

- The climate value at risk
- The number of funds that the risk/opportunity is applicable to
- The position size (weight) of the investee company in each fund
- Any investee company risk mitigation initiatives

Based on this analysis, the highest anticipated negative impacts are for funds that hold high-emitting companies such as Genesis Energy, Fonterra and BHP Group. These impacts would be most prominent under the 'Orderly' and 'Too Little Too Late' scenarios where stringent carbon-related regulation is put in place that would increase costs for those companies. This would, in turn, decrease the profitability of these companies and lead to lower shareholder returns and/or increase the probability of default.

Conversely, the highest expected positive impacts are attributable to funds with exposure to renewable energy and green technology companies such as Meridian Energy, Mercury Energy and Calix. The impacts would be strongest under the 'Orderly' scenario since this would represent the greatest behavioural backdrop driving demand for low emissions energy and sustainable technology solutions.

The other risks and opportunities assessed as medium and low impacts tend to be mitigated by factors such as some companies having diversified business lines and asset locations less exposed to climate effects, protection from carbon regulation as trade-exposed entities and small position sizes across the Funds.

Fund Strategy Implications

Overview of current fund strategies: Harbour's investment philosophy is focused on consistency – combining fundamental analysis with the skill of experienced people.

We believe:

- That quality research is the backbone of investment outperformance
- In the consistency of our investment process
- In responsible investing, and
- There is no substitute for experience

Harbour is a client-focused, research-driven, investment manager. Our combination of quantitative, macro-economic and fundamental analysis across both equity and fixed interest markets is dedicated to producing superior investment results.

Each fund has a specific investment strategy and objective and offers a different mix of investments. The investment strategies and objectives for the Funds are set out below.

FUND NAME	SUMMARY OF INVESTMENT OBJECTIVES AND STRATEGY	TARGET INVESTMENT MIX	RISK CATEGORY	MINIMUM SUGGESTED INVESTMENT TIMEFRAME
Harbour Enhanced Cash Fund	<p>Objective: To outperform the benchmark by 85 basis points per annum over a rolling 3-year period.</p> <p>Benchmark: S&P/NZX Bank Bills 90-Day Index</p> <p>Strategy: The Fund principally holds cash or cash like securities and seeks to enhance returns through active interest rate management. It may also hold NZ dollar Government Stock, investment grade bonds and bank deposits.</p>		2 This Fund has a low level of volatility	Short to medium term investment horizon Minimum 1 year
Harbour NZ Core Fixed Interest Fund	<p>Objective: To outperform the benchmark by 100 basis points per annum over a rolling 3-year period.</p> <p>Benchmark: Bloomberg NZ Bond Composite 0+Yr Index</p> <p>Strategy: The Fund is an actively managed investment grade bond fund that invests mainly in New Zealand Government and corporate fixed interest securities.</p>		3 This Fund has a medium level of volatility	Medium to long term investment horizon Minimum 3 years
Harbour NZ Corporate Bond Fund	<p>Objective: To outperform the benchmark after fees on a rolling 12-month basis.</p> <p>Benchmark: S&P/NZX Investment Grade Corporate Bond Total Return Index</p> <p>Strategy: The Fund provides access to favourable income yields through a diversified portfolio of primarily investment grade corporate bond fixed interest securities.</p>		3 This Fund has a medium level of volatility	Medium to long term investment horizon Minimum 3 years
Harbour Long Short Fund	<p>Objective: To deliver positive returns through the market cycle by investing in long and short equity positions.</p> <p>Benchmark: 15% S&P NZX50 Index: 15% S&P/ASX 200 Index & 70% S&P/NZX Bank Bills 90-Day Index</p> <p>Strategy: The Fund is an actively managed, high conviction portfolio investing principally in 'long' and 'short' listed New Zealand and Australian equities. The focus is on delivering positive returns through the market cycle by investing in long and short-sold equity positions with no particular attention to an equity benchmark. The fund is expected to have lower volatility than equity benchmarks. Given the unique features of this Fund, it may not be appropriate for all investors.</p>		4 This Fund has a medium level of volatility	Medium to long term investment horizon Minimum 5 years
Harbour NZ Index Shares Fund	<p>Objective: To provide a return (before tax, fees, and other expenses) that closely tracks the S&P/NZX Portfolio Index including imputation credits.</p> <p>Benchmark: S&P/NZX50 Portfolio Index.</p> <p>Strategy: The Fund is passively managed tracking the companies in the S&P/NZX50 Portfolio Index. The Fund has the ability to implement securities lending.</p>		5 This Fund has a higher level of volatility	Medium to long term investment horizon. Minimum 5 years
Harbour Sustainable NZ Shares Fund	<p>Objective: To provide investors exposure to constituents of the S&P/NZX Portfolio Index with exclusions to companies that do not meet Harbours' criteria of Responsible investing.</p> <p>Benchmark: S&P/NZX50 Portfolio Index.</p> <p>Strategy: The fund invests in companies in the S&P NZX Portfolio Index, with exclusions to companies that are identified as large carbon emitters, producers of alcohol, gambling services, controversial weapons and military equipment, pornography, firearms, tobacco, recreational cannabis, child labour, companies with human and animal right violations and those with poor ESG conduct. There will also be positive and negative tilts to the remaining companies based on Harbour's proprietary Corporate Behaviour Score. The Fund has the ability to implement securities lending.</p>		5 This Fund has a higher level of volatility	Medium to long term investment horizon. Minimum 5 years
Harbour Real Estate Investment Fund	<p>Objective: To exceed the benchmark return plus 1% per annum over the medium term.</p> <p>Benchmark: S&P/NZX All Real Estate Index.</p> <p>Strategy: The Fund will predominantly be invested in sustainable dividend generating companies, which derive their economic value from owning traditional real estate assets with appropriate financial and governance structures in place. In addition, the Fund may invest in shares of companies that derive their economic value from the control of real estate assets, but don't meet the strict definition of listed property securities or REITS.</p>		6 This Fund has a higher level of volatility	Medium to long term investment horizon Minimum 5 years
Harbour Australasian Equity Income Fund	<p>Objective: To generate a higher yield than the New Zealand and Australian markets.</p> <p>Benchmark: 60% S&P/ASX Industrials Index (equally weighted and 90% hedged to NZD) and 40% S&P/NZX50 Portfolio Index.</p> <p>Strategy: The Fund is designed to generate quarterly income from a diversified portfolio of Australasian listed equities that pay sustainable and growing dividend yields (the amount a company pays out in dividends each year relative to its share price) as well as holding cash and fixed interest securities.</p>		5 This Fund has a higher level of volatility	Medium to long term investment horizon Minimum 5 years
Harbour Australasian Equity Fund	<p>Objective: To achieve a gross return of 5.0% per annum above the benchmark over the long term.</p> <p>Benchmark: S&P/NZX 50 Index.</p> <p>Strategy: The Fund provides actively managed exposure to New Zealand and Australian listed equities. This fund has a growth-oriented active investment management approach including ESG integration to generate alpha (return over the benchmark) for investors.</p>		6 This Fund has a higher level of volatility	Medium to long term investment horizon Minimum 5 years
Harbour Australasian Equity Focus Fund	<p>Objective: To deliver medium to long term capital growth through investing in quality businesses with strong growth prospects.</p> <p>Benchmark: 50% S&P/NZX 50 and a 50% S&P/ASX 200 Index (which is 50% hedged into NZ dollars).</p> <p>Strategy: The Fund is an actively managed fund investing in New Zealand and Australian listed equities. It is a high conviction fund where the portfolio will consist of companies our analysts have researched and have a high belief will perform over the medium to longer-term. A higher rated company will have a higher weighting in the portfolio.</p>		6 This Fund has a higher level of volatility	Medium to long term investment horizon Minimum 5 years



FUND NAME	SUMMARY OF INVESTMENT OBJECTIVES AND STRATEGY	TARGET INVESTMENT MIX	RISK CATEGORY	MINIMUM SUGGESTED INVESTMENT TIMEFRAME
Harbour Income Fund	<p>Objective: To exceed the Official Cash Rate (OCR) plus 3.5% pa over rolling 3-year periods.</p> <p>Benchmark: 68% S&P/NZX A Grade Corporate Bond Total Return Index; 16% S&P/ASX200 Industrials Index (100% hedged to NZ dollars); and 16% S&P/NZX Portfolio Index.</p> <p>Strategy: The Fund will invest predominantly in a range of fixed income and equity securities that are compatible with generating a favourable level of income through different economic environments.</p>		<p>4</p> <p>This Fund has a medium level of volatility</p>	<p>Medium to long term investment horizon</p> <p>Minimum 5 years</p>
Harbour Active Growth Fund	<p>Objective: To exceed the Official Cash Rate (OCR) plus 5% over rolling 5-year periods.</p> <p>Benchmark: 5% S&P/NZX Bank Bills 90-day Index, 25% Bloomberg NZBond Composite 0+ Yr Index, 5% S&P/NZX All Real Estate Index, 22.5% S&P/NZX 50 Index, 7.5% S&P/ASX 200 Index (50% hedged to NZD), 35% MSCI All Country World Index (30% hedged to NZD)</p> <p>Strategy: The Fund is designed to provide investors exposure to a wide range of domestic and global assets. The Fund invests approximately two thirds in growth assets such as shares, property and infrastructure and approximately a third into more defensive assets which will predominantly be made up of investment grade bonds. The Manager will use active management to enhance returns and manage downside risks.</p>		<p>5</p> <p>This Fund has a medium level of volatility</p>	<p>Medium to long term investment horizon</p> <p>Minimum 5 years</p>
Harbour Sustainable Impact Fund	<p>Objective: To exceed the Official Cash Rate (OCR) plus 4% over rolling 5-year periods. The impact objectives are to make measurable positive influence on UN Sustainable Development Goals which could include climate, natural capital, resource sustainability, wellness, social inclusion and thriving communities and infrastructure. More information on the goals is contained at sdgs.un.org.</p> <p>Benchmark: A composite benchmark which reflects the asset allocation of the Fund as follows: 5% S&P/NZX Bank Bills 90-day Index, 35% S&P/NZX A-Grade Corporate Bond Total Return Index, 15% S&P/NZX 50 Portfolio Index, 10% S&P/ASX 200 Index (50% hedged to NZD), 17.5% MSCI All Country World Index (unhedged), 17.5% MSCI All Country World Index (100% hedged to NZD).</p> <p>Strategy: The Fund is designed to provide investors with exposure to a diversified range of global and domestic investments which make a positive environmental or social impact while aiming to exceed the return benchmark. All investments are assessed against the United Nations Sustainable Development Goals (SDGs). The Fund invests approximately 60% invested in growth assets such as impact global and domestic public and private equities and approximately 40% into more defensive assets, predominantly impact and green bonds that meet our research criteria. The Manager will use active management to enhance returns and manage downside risks.</p>		<p>4</p> <p>This Fund has a medium level of volatility</p>	<p>Medium to long term investment horizon</p> <p>Minimum 5 years</p>
Harbour T. Rowe Price Global Equity Fund	<p>Objective: 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. The Fund's foreign currency exposure is unhedged.</p> <p>Benchmark: MSCI All Country World Index (unhedged).</p> <p>Strategy: The Fund invests in a broadly diversified portfolio of global equities, typically comprising around 150 stocks.</p>		<p>5</p> <p>This Fund has a higher level of volatility</p>	<p>Medium to long term investment horizon</p> <p>Minimum 5 years</p>
Harbour T. Rowe Price Global Equity Fund (Hedged)	<p>Objective: 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. The Fund's foreign currency exposure is fully hedged to New Zealand dollars.</p> <p>Benchmark: MSCI All Country World Index (100% hedged to NZD).</p> <p>Strategy: The Fund invests in a broadly diversified portfolio of global equities, typically comprising around 150 stocks.</p>		<p>6</p> <p>This Fund has a higher level of volatility</p>	<p>Medium to long term investment horizon</p> <p>Minimum 5 years</p>

■ Cash & cash equivalents
 ■ NZ fixed interest
 ■ Intl fixed interest
 ■ Australasian equities
 ■ Intl equities
 ■ Listed property
 ■ Other

Climate implications for fund strategy:

Climate-related risks and opportunities such as those identified above are considered alongside other fundamental factors by our research analysts when forming an investment thesis on a company. For our Australasian equity funds this leads to an analyst conviction rating which then feeds into our overall investment process in addition to other ESG and quantitative factors that are used to rank companies in the investment universe.

This investment ranking framework is used by equity portfolio managers in the decision-making process for portfolio construction and the allocation of capital to particular investment opportunities.

Fixed income funds utilise the same research inputs but adopt a separate investment framework involving a three-tiered classification system where securities are either favoured, neutral or avoided in portfolios.

Global and Multi-Asset funds that involve external managers follow an appointment and monitoring process according to our ESG policy that ensures the meaningful integration of ESG factors into their investment decision making process.

At the portfolio level, we expect climate-related risks and opportunities to have an impact across the following aspects:

- Returns
 - Change in earnings growth and share prices of listed equities
 - Change in valuation of portfolio's current bonds
- Credit spread and rating
 - Change in valuation of current bonds could cause credit spreads to widen/narrow further
 - Increased/decreased credit quality of the portfolio
- Value at risk (likely to increase under more aggressive physical climate scenarios)
- Liquidity and cash flow
 - Increase/decrease in dividends from listed equities could impact fund distributions to investors
 - Increased/decreased probability of default could impact portfolio's expected cash reserve/cash flow
 - Increased/decreased difficulty to sell shares/bonds (and at a reduced price)

Harbour will continue to monitor and assess the portfolio strategy implications from climate impacts, particularly in the context of transition planning for a low carbon economy. Further detail will be provided in our FY25 report.



Risk Management

- Process
- Overall Risk Integration

Harbour's risk management process regarding climate-related impacts is described in this section, including the tools, time horizons and frequency of assessment. It also covers how this process integrates into our company-wide risk framework that captures a broad range of investment and business risks. Actual risks identified are covered in the Strategy section of this report under Risks and Opportunities.

Tools and Methods

Harbour uses a combination of in-house and ESG data provider research to identify and assess the impact of climate-related risks. Harbour selected its current provider MSCI after a review process and concluded it would best be able to assist in providing useful climate data and analytics to enhance our investment process and help meet regulatory requirements.

Harbour conducts in-house climate research as part of the overarching ESG integration approach, involving the analysis of multiple factors within Harbour's Corporate Behaviour Survey.

Climate risks across the value chain of each investee company are analysed (subject to information availability) given that some industries have a significant material exposure through both upstream and downstream activities e.g. raw material procurement and use of sold products. However, risks arising from each company's operations are the primary focus of our assessment since these are under the direct control and influence of the organisation.

In addition, MSCI's CVaR product enables us to measure the portfolio level exposure to physical and transition risks. This calculation involves selecting different global temperature warming scenarios to estimate the value at risk broken down by physical and transition as well as an aggregate exposure.

On the physical climate value at risk, these are further delineated by acute and chronic risks. Examples of acute risks include cyclones, wildfires and flooding whereas chronic risks include extreme heat, heavy snowfall and heavy precipitation.

Transition risks are categorised by asset stranding, operational transition and product transition. Examples of risks arising from these channels include regulatory fines, carbon taxes and investment in decarbonisation measures that can increase costs and reduce profitability of companies.

Time Horizons

	Short Term	Medium Term	Long Term
Time Horizon	1 – 3 years	5 – 10 years	25+ years
Year Relative to 2024	2026	2030	2050

These time horizons have been adopted in collaboration with other industry peers as part of a scenario narratives project to help provide comparability and consistency between climate related disclosures.

In addition, these time periods generally align with net zero and interim targets that are prevalent amongst portfolio constituent companies.

Prioritisation

Climate-related risks are weighted to a greater extent within Harbour's ESG integration framework than most other factors based on its materiality and impact spanning several sectors of the investment universe.

The process for determining the relative weightings of factors within the survey is guided by credible global frameworks such as the SASB materiality map, academic research as well as in-house expertise as part of a periodic review coordinated by the Manager, ESG Research.

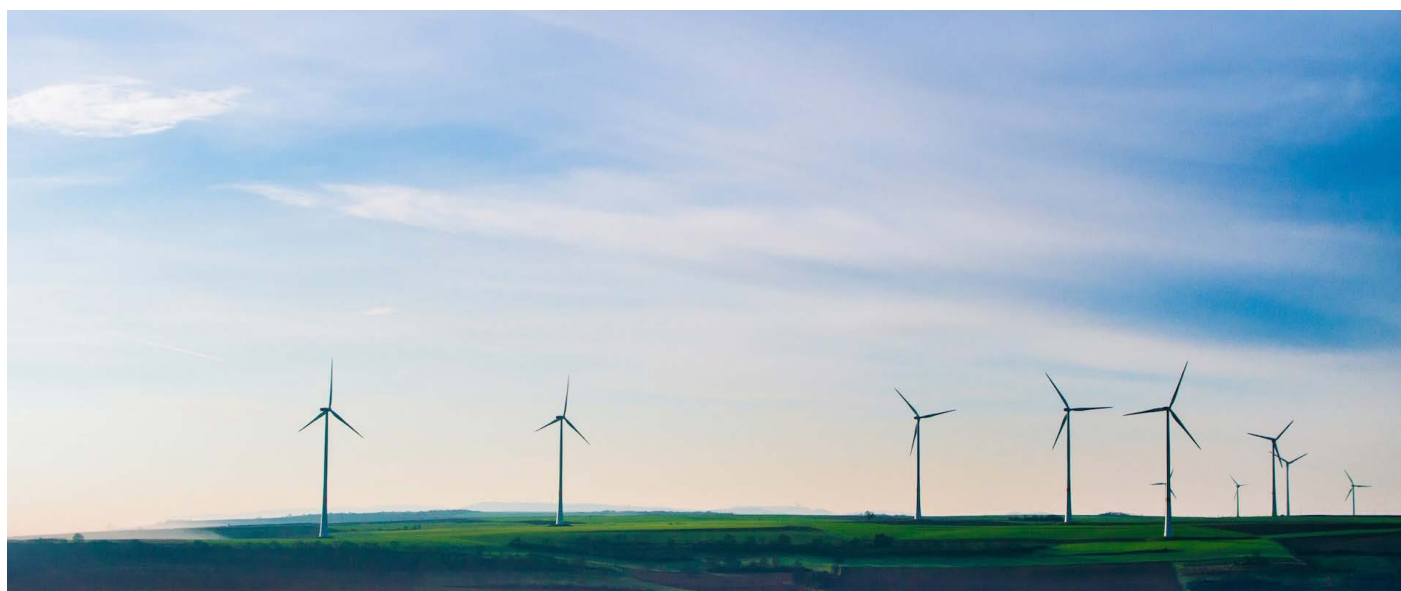
Frequency

The frequency of assessment depends on the risk metric. Climate information provided by companies is typically provided on an annual basis which is aligned with the assessment under our Corporate Behaviour Survey process.

However, at the portfolio level, given the ability to adjust position sizes in these companies, the value at risk can fluctuate on a daily basis. From a practical perspective, we measure and monitor the portfolio level footprints on a monthly basis with a deeper value at risk analysis conducted on a quarterly basis.

Overall Risk Integration

Assessment of climate change risk forms part of Harbour's quarterly risk committee meetings along with other investment and business risks. An assessment of climate risk is made across portfolios using relevant metrics such as carbon footprints and emissions attributions. An overall traffic light indicator (high, medium, low) for inherent and residual climate risk is then determined which contributes to the holistic business risk score.



Metrics and Targets

- Financed emissions
- Other standard climate metrics
- Industry metrics
- Targets

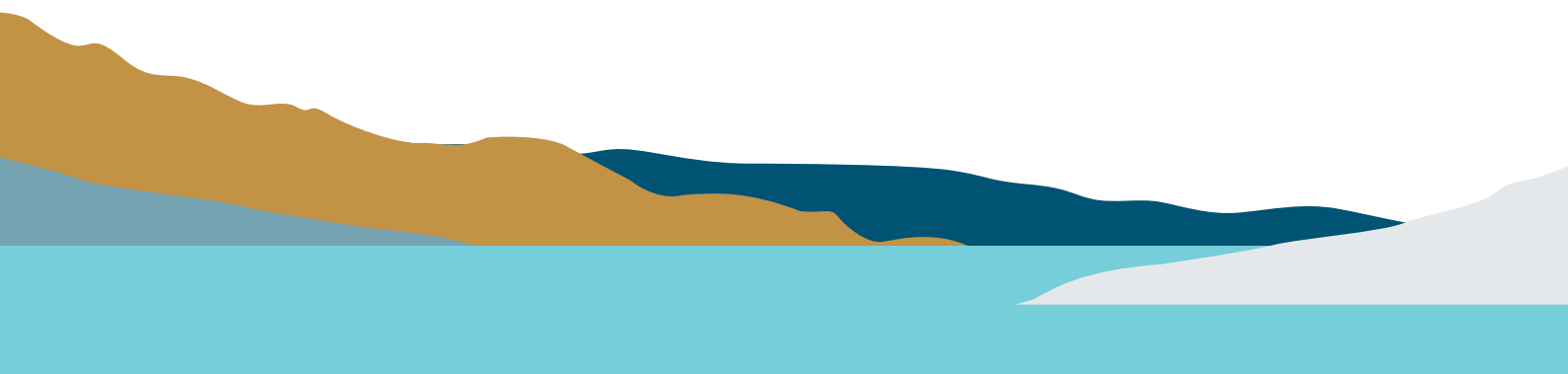
This section provides multiple quantitative measures to show the exposure of Harbour portfolios to climate risks and opportunities that can be used to track performance over time and compare with other funds and/or benchmarks. It includes both standard metrics such as total (financed) GHG emissions for each fund as well as prevalent industry metrics Carbon Footprint and Weighted Average Carbon Intensity.

Financed emissions

At the Scheme level, the most material and relevant emissions for each fund are the indirect (scope 3) investment-related emissions which represent the total emissions financed by each of its underlying portfolio constituents. This measure represents an ownership approach where a greater amount invested in an issuer means a higher amount of the emissions associated with that issuer being financed.

GHG emissions for portfolio constituents are measured according to a third party ESG data provider (MSCI). Harbour utilises the Partnership for Carbon Accounting Financials (PCAF) standard² for its methodology in calculating the portfolio-financed emissions.

Additional information on the limitations and calculation methodology of this data are provided in Appendix 2 and 3. The fund coverage and data quality scores provided in Appendix 4 and 5 should also be taken into account when analysing these financed emissions and other climate metrics presented in this report.



Fund	Financed Emissions (tCO ₂ e) ³
Harbour Australasian Equity Fund	2,044
Harbour Australasian Equity Focus Fund	166
Harbour Australasian Equity Income Fund	641
Harbour Real Estate Investment Fund	101
Harbour Sustainable NZ Shares Fund	3,570
Harbour NZ Index Shares Fund	18,459
Harbour Long Short Fund	132
Harbour Enhanced Cash Fund	1,541
Harbour NZ Core Fixed Interest Fund	406
Harbour NZ Corporate Bond Fund	2,285
Harbour Income Fund	3,119
Harbour Active Growth Fund	570
Harbour Sustainable Impact Fund	112
Harbour T. Rowe Price Global Equity Fund	6,241
Harbour T. Rowe Price Global Equity Fund (Hedged)	1,189

The funds with the highest financed emissions are those with the greatest total fund size given the metric uses a firm ownership-based approach which hinders comparability. The Index Shares Fund also stands out given it applies a passive investment strategy where some of the country's largest emitters are held at index weights according to its S&P/NZX 50 Portfolio Index benchmark.

At the sector level, the most significant contributors to financed emissions across the Funds tend to be from utilities and industrials. These sectors comprise mixed power generation and transport companies with relatively high emissions footprints. Other notable sectors that contribute to financed emissions for some funds include materials and energy.

² PCAF: Global GHG Accounting & Reporting Standard for the Financial Industry

³ Source: Harbour, MSCI, Bloomberg as at 30 June 2024

Other standard climate metrics

Weighted Average Carbon Intensity

This metric shows the exposure of each fund to carbon-intensive companies by taking the weighted average of each investee company's carbon intensity (emissions divided by sales). This measure provides comparability between funds since the calculation involves a portfolio-weighted rather than ownership-based approach.

Fund	Weighted Average Carbon Intensity (tCO ₂ e / NZD M sales) ⁴
Harbour Australasian Equity Fund	47
Harbour Australasian Equity Focus Fund	21
Harbour Australasian Equity Income Fund	77
Harbour Real Estate Investment Fund	16
Harbour Sustainable NZ Shares Fund	41
Harbour NZ Index Shares Fund	61
Harbour Long Short Fund	49
Harbour Enhanced Cash Fund	16
Harbour NZ Core Fixed Interest Fund	5
Harbour NZ Corporate Bond Fund	14
Harbour Income Fund	44
Harbour Active Growth Fund	59
Harbour Sustainable Impact Fund	62 ⁵
Harbour T. Rowe Price Global Equity Fund	51
Harbour T. Rowe Price Global Equity Fund (Hedged)	51

The table above shows the differences according to asset class, investment geography and strategy with the fixed interest funds generally at the low end of the range and the multi-asset funds skewed to the higher end.

The largest sector contributor across many funds is utilities which captures relatively carbon-intensive power generation and energy infrastructure companies. These companies feature prominently in the Australasian Equity Income Fund in particular, given the yield-focused strategy. This is also prevalent in the Sustainable Impact Fund that holds both equity and debt (e.g. green bonds) of utility companies such as Contact Energy.

⁴ Source: Harbour, MSCI, Bloomberg as at 30 June 2024

⁵ The reported figure uses gross financed emissions. In practice, any carbon financed by the fund is offset by Harbour, through investment in projects which actively prevent carbon release. Therefore, the net financed emissions and weighted average carbon intensity is effectively zero.

Transition Risks

There are a broad range of risks associated with the transition to a low carbon economy that may be related to policy, market behaviour and technology forces.

We have measured these risks according to the total exposure to low carbon transition risk metric assessed by MSCI that is further broken down by operational, product or asset stranding risk. Further details on the methodology of this metric are provided in Appendix 8.

Fund	Exposure to Low Carbon Transition Risk ⁶
Harbour Australasian Equity Fund	23.6%
Harbour Australasian Equity Focus Fund	12.8%
Harbour Australasian Equity Income Fund	5.7%
Harbour Real Estate Investment Fund	0.7%
Harbour Sustainable NZ Shares Fund	13.0%
Harbour NZ Index Shares Fund	15.2%
Harbour Long Short Fund	16.0%
Harbour Enhanced Cash Fund	37.5%
Harbour NZ Core Fixed Interest Fund	11.8%
Harbour NZ Corporate Bond Fund	34.8%
Harbour Income Fund	12.2%
Harbour Active Growth Fund	15.5%
Harbour Sustainable Impact Fund	16.6%
Harbour T. Rowe Price Global Equity Fund	17.1%
Harbour T. Rowe Price Global Equity Fund (Hedged)	17.1%

The table above shows that the fixed interest funds tend to have higher exposure to transition risks due to the product transition aspect that captures companies that risk facing reduced demand for carbon-intensive products and services. This is because these funds have a significant allocation to traditional debt securities that may be displaced by green bonds and other sustainable finance instruments. This would be most prominent under an “Orderly” scenario with higher transition risks.

⁶ Source: Harbour, MSCI as at 30 June 2024

Physical Risks

There are many types of climate hazards such as floods, droughts and cyclones that will impact companies across the Funds, particularly for scenarios with higher expected global temperatures.

We have provided a measure to assess the exposure to these physical risks at the portfolio level through MSCI's Physical Risk Climate Value at Risk model. This metric calculates the present value of each investee company's future costs (and profits) due to physical hazards under different global warming scenarios. The "Orderly" and "Hothouse" scenarios were selected to show the extent of outcomes possible from this model. Further information on this metric is provided in Appendix 6.

Fund	Physical CVaR 1.5 degrees ⁷	Physical CVaR 3 degrees ⁷
Harbour Australasian Equity Fund	-1.1%	-3.3%
Harbour Australasian Equity Focus Fund	-1.3%	-3.6%
Harbour Australasian Equity Income Fund	-1.0%	-3.5%
Harbour Real Estate Investment Fund	-0.9%	-1.8%
Harbour Sustainable NZ Shares Fund	-4.2%	-8.5%
Harbour NZ Index Shares Fund	-4.3%	-9.4%
Harbour Long Short Fund	-1.4%	-3.8%
Harbour Enhanced Cash Fund	0.0%	0.0%
Harbour NZ Core Fixed Interest Fund	-0.2%	-0.3%
Harbour NZ Corporate Bond Fund	-0.3%	-0.3%
Harbour Income Fund	-0.9%	-2.5%
Harbour Active Growth Fund	-1.8%	-4.6%
Harbour Sustainable Impact Fund	-1.4%	-2.9%
Harbour T. Rowe Price Global Equity Fund	-1.9%	-4.7%
Harbour T. Rowe Price Global Equity Fund (Hedged)	-1.9%	-4.7%

The table above illustrates the greater value at risk for a "Hothouse" scenario where physical hazards are expected to be more frequent and severe given the higher global temperature.

Between funds there is an evident asset class impact with fixed income portfolios skewed to the lower end while global, multi asset funds are biased towards the higher end. This reflects geographic differences in companies operating in regions that face a higher risk of extreme weather events.

In addition, the equity funds with strategies that are more passive like the Index Shares Fund and Sustainable NZ Shares Fund tend to be the most exposed. This is attributed to these funds having a relatively greater allocation to companies in the utilities and industrials sectors that have assets exposed to climate hazards domestically such as coastal flooding and droughts.

⁷ Source: Harbour, MSCI as at 30 June 2024

Climate Opportunities

The transition to a low carbon global economy will present opportunities to a broad range of companies that can provide goods and services that enable or accelerate this transition.

Harbour has measured this at the portfolio level by the weighted average of green revenue exposure. This metric captures the proportion of each portfolio that is exposed to companies that have revenue aligned to the following three climate themes: alternative energy, energy efficiency and green buildings. Further information on the methodology of this metric is provided in Appendix 7.

We believe that this metric can also be used to represent capital deployment to climate-related opportunities.

Fund	Green Revenue Exposure ⁸
Harbour Australasian Equity Fund	7.4%
Harbour Australasian Equity Focus Fund	3.9%
Harbour Australasian Equity Income Fund	11.4%
Harbour Real Estate Investment Fund	6.1%
Harbour Sustainable NZ Shares Fund	8.6%
Harbour NZ Index Shares Fund	8.0%
Harbour Long Short Fund	4.9%
Harbour Enhanced Cash Fund	2.6%
Harbour NZ Core Fixed Interest Fund	1.8%
Harbour NZ Corporate Bond Fund	5.0%
Harbour Income Fund	5.8%
Harbour Active Growth Fund	6.3%
Harbour Sustainable Impact Fund	11.1%
Harbour T. Rowe Price Global Equity Fund	7.9%
Harbour T. Rowe Price Global Equity Fund (Hedged)	7.9%

The funds with higher exposure to these green revenue themes tend to be those with strategies more explicitly oriented towards sustainability outcomes. For example, the Sustainable Impact and Sustainable Shares Funds generally allocate capital to a greater extent than other funds in renewable energy companies and away from high emitters. The Equity Income Fund has a similar exposure given its strategy favours companies with strong dividend yields which overlap with these green revenue themes.

⁸ Source: Harbour, MSCI as at 30 June 2024

Internal Emissions Price

Harbour does not yet formally integrate an internal emissions price into our fundamental research analysis of portfolio constituents given the high level of uncertainty involved due to regulatory risk. However, as part of the scenario analysis conducted, we have utilised the MSCI CVaR tool that assumes a carbon price trajectory under each scenario according to a scientific climate model.

Based on the modelling assumptions under the scenarios analysed, it is projected that under an “Orderly” (1.5 degree) pathway, the carbon price would be approximately US\$600 per tonne by 2050. Whereas, for the “Too Little Too Late” and “Hothouse” scenarios (>2 and >3 degrees respectively), the carbon price would be approximately US\$125 and US\$10 per tonne.⁹

These results show the high degree of transition risk associated with low temperature scenarios such as the “Orderly” (1.5 degrees) pathway given the high carbon price. Conversely, assuming a business-as-usual pathway with minimal transition under the “Hothouse” scenario would yield a relatively flat carbon price trajectory that would not change much from its starting point.

Remuneration

Everyone in the Harbour team, including investment professionals, operations, and client services has sustainability and responsible investing as a key performance objective as part of the matrix of six key collective goals. In this way, we all contribute to supporting Harbour’s own corporate behaviour that underscores the investment team’s active investment approach.



⁹ https://www.ngfs.net/sites/default/files/media/2024/01/16/ngfs_scenarios_technical_documentation_phase_iv_2023.pdf

Industry based metrics

The Carbon Footprint metric presented below is a prevalent measure used in the investment management industry to show emissions financed while controlling for fund size by dividing by capital invested.

Fund	Carbon Footprint (tCO ₂ e / NZD M invested) ¹⁰
Harbour Australasian Equity Fund	14
Harbour Australasian Equity Focus Fund	6
Harbour Australasian Equity Income Fund	18
Harbour Real Estate Investment Fund	1
Harbour Sustainable NZ Shares Fund	16
Harbour NZ Index Shares Fund	36
Harbour Long Short Fund	13
Harbour Enhanced Cash Fund	8
Harbour NZ Core Fixed Interest Fund	2
Harbour NZ Corporate Bond Fund	5
Harbour Income Fund	12
Harbour Active Growth Fund	13
Harbour Sustainable Impact Fund	16
Harbour T. Rowe Price Global Equity Fund	17
Harbour T. Rowe Price Global Equity Fund (Hedged)	17

The funds skewed to the upper end of the range tend to have a greater exposure to the materials, utilities and energy sectors which contain relatively higher-emitting companies like power generators and building material operators. Conversely, the fixed interest funds generally have lower footprints largely due to having a strategy oriented towards the financials sector which has low operational emissions.

The NZ Index Shares Fund has the highest carbon footprint out of all the Funds given that it follows a passive investment strategy, tracking its benchmark index as close as possible. This means holding some of the largest emitting companies in the market, particularly those in the utilities and industrials sectors.

Targets

The Funds in this Scheme do not currently have any specific GHG emissions targets at the portfolio level. This may be subject to change, however, at this stage, the investment objectives are not formally bound by a climate target although individual securities within each fund may have elected to adopt one at its own discretion. As such, there

is also no explicit base year for benchmarking progress however this would be carefully assessed in consideration for any future climate-related targets.

Climate-related risks and opportunities are still measured and integrated into investment decision-making; however this is in the context of the existing objective to outperform the benchmark over the specified time period subject to risk constraints.

¹⁰ Source: Harbour, MSCI, Bloomberg as at 30 June 2024

Appendices

- Appendix 1 – Scenario characteristics
- Appendix 2 – Calculation methodology
- Appendix 3 – Limitations
- Appendix 4 – Coverage Ratio
- Appendix 5 – Data Quality Score
- Appendix 6 – Physical Climate Value at Risk
- Appendix 7 – Green Revenue Exposure
- Appendix 8 – Low carbon transition risk

Appendix 1: Scenario characteristics

	Orderly	Too Little Too Late	Hothouse
Climate and socio-economic pathways	IPCC SSP 1- 1.9 NIWA RCP 2.6 CCC 'Tailwinds'	IPCC SSP 2-4.5 NIWA RCP 4.5 CCC 'Headwinds'	IPCC SSP 5-8.5 NIWA RCP 8.5 CCC 'Current Policy Reference'
Energy and emission pathway parameters	NGFS Net Zero 2050 IEA Net Zero Emissions by 2050	NGFS Fragmented World IEA APS	NGFS Current Policies IEA STEPS
Emission Pathways	Net Emissions <ul style="list-style-type: none"> • Domestic: 47 MtCO₂e by 2030, 3.8 MtCO₂e by 2050 • Global: 21 BtCO₂e by 2030, 0 MtCO₂e by 2050 	Net Emissions <ul style="list-style-type: none"> • Domestic: 57 MtCO₂e by 2030, 22 MtCO₂e by 2050 • Global: 34 BtCO₂e by 2030, 21 BtCO₂e by 2050 	Net Emissions <ul style="list-style-type: none"> • Domestic: 62 MtCO₂e by 2030, 35 MtCO₂e by 2050 • Global: 39 BtCO₂e by 2030, 34 BtCO₂e by 2050
Economic Outcomes	GDP <ul style="list-style-type: none"> • Domestic: NZ\$330b in 2030, NZ\$485b in 2050 • Global: US\$176t in 2030, US\$289t in 2050 	GDP <ul style="list-style-type: none"> • Domestic: NZ\$329b in 2030, NZ\$477b in 2050 • Global: US\$175t in 2030, US\$274t in 2050 	GDP <ul style="list-style-type: none"> • Domestic: NZ\$329b in 2030, NZ\$475b in 2050 • Global: US\$175t in 2030, US\$273t in 2050
Energy	Percent of renewable energy of total energy produced: <ul style="list-style-type: none"> • Domestic: 55% by 2030, 90% by 2050 • Global: 30% by 2030, 67% by 2050 	Percent of renewable energy of total energy produced: <ul style="list-style-type: none"> • Domestic: 50% by 2030, 80% by 2050 • Global: 19% by 2030, 37% by 2050 	Percent of renewable energy of total energy produced: <ul style="list-style-type: none"> • Domestic: 48% by 2030, 61% by 2050 • Global: 16% by 2030, 26% by 2050

The assumptions from the table above have been sourced from a combination of the FSC industry scenario narrative report research, NZ Climate Change Commission for domestic parameters and the Network for Greening the Financial System as well as the International Energy Agency for the global parameters.

The scenarios Harbour has selected for its analysis have been purposely chosen to align with both the industry work and these domestic and global climate models to provide better comparability with our peers in the best interests of primary users of this report.

Appendix 2: Calculation Methodology

Harbour's calculation methodology for financed emissions metrics is based on the Partnership for Carbon Accounting Financials (PCAF) Standard for listed equities, sovereign and listed corporate debt.

The PCAF standard has built on the widely used framework for GHG emission accounting known as the Greenhouse Gas Protocol but provides more specialised guidance for measuring portfolio-financed emissions for key asset classes.

Harbour has used an operational control approach for the measurement and reporting of GHG emissions in this climate statement. This means that emissions for the Scheme's loans and investments (without operational control) are reported as scope 3 category 15 (investments) emissions, defined under the GHG Protocol Standard.

The definitions and formulae for the key climate metrics used in this report are provided below:

Financed Emissions

$$\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)$$

Measures the total absolute emissions that are financed by the fund's investors through their ownership. Emissions are allocated to all financiers by using the total enterprise value (including cash) in the denominator.

Weighted Average Carbon Intensity

$$\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i} \right)$$

Measures the fund's exposure to carbon intensive companies by taking the weighted average of companies' carbon intensity, defined as its emissions divided by sales in NZD millions.

Carbon Footprint

$$\frac{\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)}{\text{current portfolio value (\$M)}}$$

Measures the total emissions financed by the fund's investors, normalised by the amount invested through dividing by the total portfolio value in NZD millions. Emissions are allocated using a firm ownership approach based on the total enterprise value including cash.

Gases and units

The financed emissions calculated are based on total greenhouse gas emissions with units expressed as metric tonnes of carbon dioxide equivalent. Given these outputs are derived from the emissions data calculated by each of the funds' investee companies, we are unable to report a singular source of emissions factors and global warming potential rates used at the portfolio level. These may vary from company to company and this level of granularity is not available from our data provider.

The dollar values for revenue and portfolio size are in NZD. The metrics are all provided as at 30 June 2024, the financial year end for the Funds in this Scheme.

Exclusions

Harbour has determined that the emissions relating to the Scheme are predominantly captured as investments under scope 3, category 15 of the PCAF Standard using the operational control consolidation approach.

Following the materiality requirement of CS 3, Harbour has elected to only include these financed emissions (scope 3, category 15) in its calculation of metrics used in the climate statements.

This means the scope 1, 2 and other scope 3 categories (1 – 14) are excluded from the measurement and reporting of GHG emissions for the Scheme. This is because emissions arising from these sources are deemed to be negligible and immaterial based on estimates calculated during the preparation of Harbour's corporate GHG inventory as part of the Toitū carbonzero certification process.

In addition, Harbour has excluded the measurement and reporting of some asset classes that the PCAF Standard does not cover because of an uncertain calculation methodology and/or lack of reliable GHG emissions data. Harbour has therefore excluded the derivatives and cash (+cash equivalents) asset classes from its calculations of emissions metrics across Funds in the Scheme.

Furthermore, Harbour has also excluded private equity and debt from its calculations given these comprise an immaterial proportion of the Funds in the Scheme and accurate emissions data is not readily available.

MSCI estimates

MSCI uses reported emissions data from underlying portfolio companies where possible but for those companies that do not report emissions, MSCI calculates estimates based on production data and/or industry average emissions data and closely follows the PCAF descriptions for data quality scores 3, 4 and 5.

Harbour adjustments

Sovereign debt emissions

The New Zealand Government is a prominent non-reporting entity among the Harbour fixed income funds. We believe omitting such a large borrower and grossing up the remaining borrowers compromises the integrity of a portfolio-level metric. We have had constructive discussion with representatives from the New Zealand Government to publish this data and we understand a project is underway to capture the data. While we wait for its disclosure we have calculated a proxy as the average of two methods:

- 1) The Government has published results of some departments/entities already. We have grossed these up based on their share of government spending to calculate an all of government figure.
- 2) Based on the UK Government's disclosure we have calculated a proxy for New Zealand adjusted by the activity performed. For example, the UK spends a greater portion of carbon-intense defense.

We acknowledge this proxy is likely to be imprecise, but believe it is better to imprecisely capture the right measure than use a more precise incorrect measure.

Local government

No guidance is provided on the local government sector which is a significant portion of fixed interest funds' benchmarks and therefore material.

The New Zealand Local Government Funding Agency (LGFA), the financial entity for the local government sector, is the most significant issuer in the sector and publishes carbon data. However, this data represents its own operational footprint as a very small entity. We think this is unrepresentative of what a portfolio is funding and could be subject to distortion – for example we have a choice to directly own the bonds of a council or to fund the same council via the LGFA. This choice does not make a real-world impact on the portfolio's contribution to carbon but measuring the carbon of the entire entity versus its small bank makes a huge difference.

MSCI does not capture this data even though some councils publish their GHG emissions inventories. For example, Auckland Council publishes data on emissions within its territorial boundary and therefore suffers the shortcoming of the central government discussed above.

In the absence of sensible local government data, we use our proxy of the New Zealand Government for the local government sector, including LGFA.

Listed equity and corporate bond emissions

In addition to using the MSCI estimated data, Harbour has undertaken an internal verification process that has involved sampling a selection of the largest emitting investee companies in each fund and checking this against the data provided in publicly available documents from these companies.

In cases where the reported data is inaccurate due to the complexity or timing of the data, Harbour has applied an override using the company-reported data as the source.

Given the size of some of the funds in terms of the total number of securities held, it has not been pragmatic to conduct this process across the full range of investee companies in each fund and we have therefore relied on the data sourced from our provider MSCI.

As noted in Appendix 3, there are challenges with using data sourced from an external provider, particularly in the timeliness of data where there may be several months lag before updated information is reflected in its database. However, we will continue to engage with our provider to encourage improvement in their practices.

Revenue and enterprise value

Enterprise value and revenue are straight-forward, readily available datapoints for listed companies. We do not perform checking of our data providers given their strong reputations.

Enterprise value measures the market value of an entity's debt and equity. Many bond issuers are not listed on a stock exchange and our data providers leave such entities unpopulated. For entities that have carbon data but not enterprise value, we have manually entered this as book value of debt and equity.

Appendix 3: Limitations

The primary limitation with the information provided in this report is the breadth and quality of the data used, particularly in the Metrics and Targets section.

There are a variety of factors that contribute to the gaps in coverage and ambiguity over the quality of the data, some of which are explained below:

- **Complexity** – Given the broad range of financial instruments and differences in their characteristics, it can be difficult to develop a unified standard to measure and report climate-related information that is accurate and useful for each security. For example, the innovation in derivatives has given investors access to new financial instruments that offer different risk and return profiles compared to traditional securities but from a carbon accounting perspective can make it complicated to attribute emissions data in a fair and accurate manner while avoiding double counting.
- **Verifiability** – Much of the data presented in this report is provided at the fund level which is typically a weighted aggregation of the data from underlying investments in the fund. Given the nascency of mandatory climate reporting, a significant amount of the data (GHG emissions in particular) is self-reported and not subject to assurance or other forms of external verification. This raises concerns over the accuracy of the data and may be prone to errors in methodology or process that would undermine its validity.
- **Timeliness** – It is acknowledged that investee companies measure and report climate data at different points in time and at different frequencies according to their own reporting periods and practices. This can create a mismatch in the timing of data when comparing between companies and calculating portfolio level metrics such as carbon footprints. This issue is further exacerbated by time lags from external ESG data providers from when the data is made publicly available from companies and when it is reflected in its respective database.

From a practical perspective, the data provided in this report is limited by the coverage of each portfolio calculation, the level of reliable, verified data from the underlying investee companies and the timeliness impacted by the differing reporting periods and our use of an external ESG data provider.

The fund coverage and data quality scores provided in Appendix 4 and 5 should therefore be taken into account when analysing the climate metrics presented in this report.

Appendix 4: Coverage

To demonstrate the proportion of each fund's assets that have been used to calculate the portfolio level metrics, the coverage percentages are provided in the table below.

This coverage percentage captures both whether the asset type is covered by the metric calculations and if the raw climate data is available.

Note that some asset types such as cash, derivatives, private equity and debt are excluded from these measurements which is reflected in lower coverage proportions for those funds holding more of these securities. Furthermore, there is less coverage of the more complex value at risk metrics by MSCI compared to the GHG emissions data.

Climate Data Coverage		
Fund	Scope 1 + 2	Climate VaR
Harbour Australasian Equity Fund	98%	95%
Harbour Australasian Equity Focus Fund	97%	93%
Harbour Australasian Equity Income Fund	92%	92%
Harbour Real Estate Investment Fund	92%	83%
Harbour Sustainable NZ Shares Fund	100%	100%
Harbour NZ Index Shares Fund	99%	98%
Harbour Long Short Fund	51%	87%
Harbour Enhanced Cash Fund	69%	60%
Harbour NZ Core Fixed Interest Fund	90%	39%
Harbour NZ Corporate Bond Fund	89%	39%
Harbour Income Fund	37%	74%
Harbour Active Growth Fund	86%	87%
Harbour Sustainable Impact Fund	91%	82%
Harbour T. Rowe Price Global Equity Fund	75%	93%
Harbour T. Rowe Price Global Equity Fund (Hedged)	75%	93%

Appendix 5: Data Quality Score

As noted in Appendix 3, the quality of data used in this report, particularly GHG emissions can be questionable, so we have provided a metric recommended by the PCAF Standard that attempts to measure this quality.

This metric is the weighted average data quality score where 1 represents the highest quality data and 5 the lowest quality. A score close to 1 would mean that the majority of data used are verified company-reported emissions, while scores close to 5 are mostly based on emissions estimates derived from economic activity measures.

The weighted average score for each fund in the Scheme is presented in the table below:

Financed Emissions Data Quality Score	
Fund	PCAF Weighted Score
Harbour Australasian Equity Fund	2.4
Harbour Australasian Equity Focus Fund	2.5
Harbour Australasian Equity Income Fund	2.3
Harbour Real Estate Investment Fund	2.2
Harbour Sustainable NZ Shares Fund	2.2
Harbour NZ Index Shares Fund	2.2
Harbour Long Short Fund	2.4
Harbour Enhanced Cash Fund	2.1
Harbour NZ Core Fixed Interest Fund	2.1
Harbour NZ Corporate Bond Fund	2.1
Harbour Income Fund	2.3
Harbour Active Growth Fund	2.2
Harbour Sustainable Impact Fund	2.1
Harbour T. Rowe Price Global Equity Fund	2.1
Harbour T. Rowe Price Global Equity Fund (Hedged)	2.1

Note that the scores calculated above are based only on the respective fund holdings for which emissions data is available or estimated (the remaining securities are excluded). In addition, the scores do not account for the additional adjustments Harbour has made as part of its verification process outlined in Appendix 2.

Appendix 6: Physical Climate Value at Risk

Harbour has used a physical climate value at risk metric to measure physical risk at the portfolio level across the Funds in the Scheme.

This metric has been calculated using MSCI's climate product and shows the percentage of the fund's assets that are at risk for physical climate hazards.

Both acute and chronic physical hazards are captured and the value at risk is calculated as the present value of each investee company's expected costs/profits resulting from these hazards under different global warming scenarios.

MSCI's methodology involves assessing each individual company's exposure to the various physical hazards such as coastal flooding, tropical cyclones, wildfires and others based on the location of its assets. MSCI uses mathematical modelling to estimate the costs/profits from each hazard.

Harbour has provided the physical climate value at risk for both the "Orderly" (1.5-degree Net Zero) and "Hothouse" (3-degree Current Policies) scenarios to show the difference in risk at the two opposite ends of the global warming spectrum in our analysis.

Appendix 7: Green Revenue Exposure

The metric Harbour has used to measure climate-related opportunities at the portfolio level across Funds is the weighted green revenue exposure. This has been calculated using MSCI's climate product that maps investee company revenues against the following environmental impact metrics:

Climate change

- Alternative Energy
- Energy Efficiency
- Green Building

Natural Capital

- Pollution Prevention
- Sustainable Water
- Sustainable Agriculture

Harbour has selected only the three climate related themes as its modified definition of MSCI's green revenue exposure metric given the other environmental themes are outside of the scope of climate opportunities.

MSCI's methodology involves screening companies that generate revenues from products or services which have a positive impact on each of the categories above and are further delineated by sub-categories e.g. solar, wind and geothermal under the umbrella of alternative energy and zero emissions vehicles, and LED/CFL lighting under the energy efficiency umbrella.

The metrics are calculated based on company-disclosed activities and revenue as well as estimates of revenue that are extrapolated from company disclosures and other credible sources like non-government organisations.

Appendix 8: Low carbon transition risk

Harbour has measured transition risk across Funds in the Scheme using the low carbon transition risk metric calculated by MSCI. This metric identifies the proportion of the fund's market value that is exposed to three categories of transition risk: operational, product and asset stranding.

The metric represents the aggregate exposure of these three categories which are further detailed below.

Operational

Companies that have carbon-intensive operations or supply chains that could be exposed to climate transition costs such as carbon taxes, regulatory fines, rising raw material costs and other supply disruptions caused by supplier carbon-related risk.

MSCI uses company carbon emissions intensity to measure this climate transition risk. Company reported data is used, where available, for scope 1 and 2 emissions intensity while estimates are used for remaining companies and for scope 3 emissions intensity.

Examples of industries that may be captured by this risk category are cement and steel.

Products

Companies that have carbon-intensive products or those in carbon-dependent industries where there is high revenue dependence on other companies with carbon intensive operations/products. These companies may face climate transition costs through reduced demand for their products and services.

MSCI uses estimated scope 3 carbon emissions intensity data according to its proprietary methodology to measure the risk exposure from this category.

Manufacturers of petrol-fuelled vehicles, steam turbines and other energy equipment and services companies are examples that are captured in this risk category.

Asset Stranding

Companies that are at risk of having their assets stranded as a result of regulatory, market or technological forces from the climate transition. These companies may face significant costs related to impairments and devaluations of the assets impacted.

MSCI measures the risk exposure in this category as those companies that operate in the fossil fuel value chain that exceed a specific carbon emissions intensity threshold according to its proprietary methodology.

For example, this risk category includes companies involved in coal mining, coal-based power generation and others in the oil and gas industry.



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