

# Harbour Investment Funds

## Statement of Investment Policy & Objectives (SIPO)

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Issued by Harbour Asset Management Limited

1<sup>st</sup> October 2021

This document replaces the SIPO dated 16<sup>th</sup> August 2021



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# Background

This Statement of Investment Policy and Objectives (SIPO) sets out Harbour's investment philosophy and each of the Harbour Investment Fund's investment guidelines, style and objectives.

The SIPO is subject to change from time to time. Where required by the trust deed or law, you will receive prior notification of any material change to an investment strategy or objective. The most current version of this SIPO is available on the offer register at [business.govt.nz/disclose](https://business.govt.nz/disclose) (Disclose). Throughout the SIPO, we use "Harbour", "we", "our" or "us" to refer to the Manager, Harbour Asset Management Limited. Words defined in the Product Disclosure Statement (PDS) have the same meaning when used in the SIPO.

## 1. Description of the managed investment scheme

The Harbour Investment Funds is a managed investment scheme (MIS) for the purposes of the Financial Markets Conduct Act 2013 (FMC Act).

The Harbour Investment Funds has 14 investment funds (Funds) on offer, as listed below:

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

\* The Harbour NZ Equity Advanced Beta Fund transitioned to the Harbour NZ Index Shares Fund on 1 April 2021.

\*\* The T. Rowe Price Global Equity Growth Fund changed name to the Harbour T. Rowe Price Global Equity Fund on 1 October 2021.

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 International Limited. Some Harbour Funds (the Harbour Income Fund and Harbour Active Growth Fund) may allocate to external managers. Refer to section 4. Investment management policies for more information. Harbour's contact details are available on Disclose ([www.business.govt.nz/disclose](https://www.business.govt.nz/disclose)).

The New Zealand Guardian Trust Company Limited (Guardian Trust) is the Supervisor of the Scheme under the FMC Act. Trustees Executors Limited (TEL) is the administration manager for all of the Funds in the Scheme, and Guardian Trust (acting through its nominee company NZGT (Harbour) Nominees Limited or its appointed custodian, Trustee Executors Limited) is Custodian for the Funds.

## 2. About Harbour

### Investment philosophy

Harbour’s investment philosophy is focused on consistency – in combining fundamental analysis with the skill of experienced people.

We believe:

- That quality research is the backbone of investment out-performance;
- In the consistency of our investment process;
- In responsible investing; and that
- There is no substitute for experience.

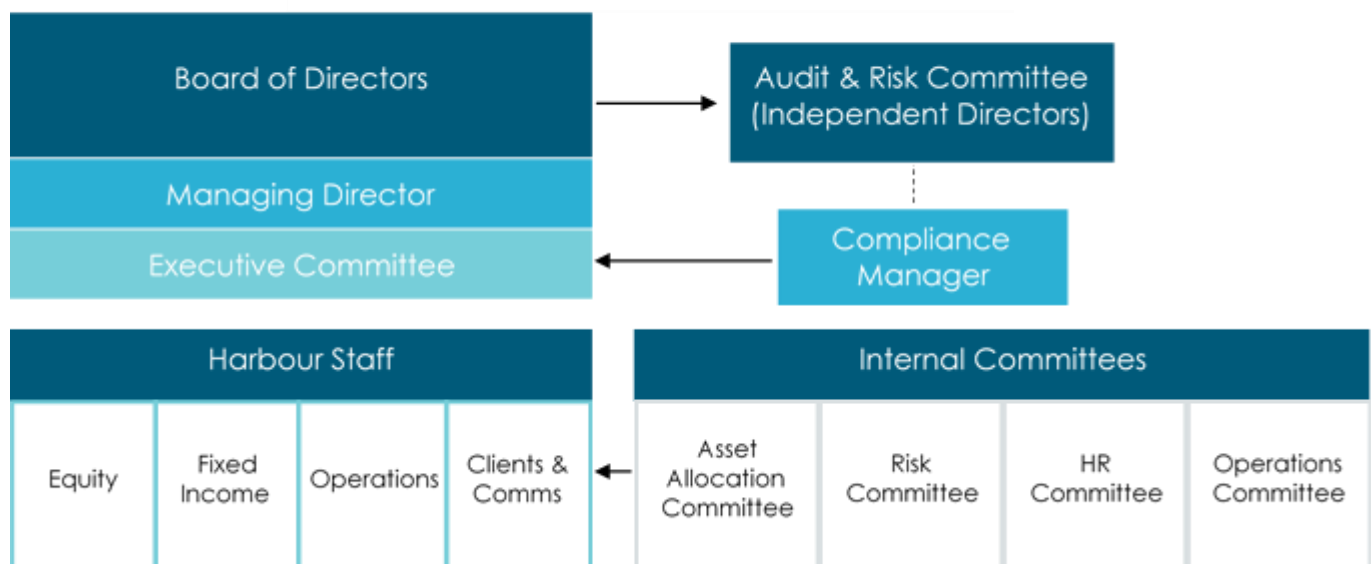
Harbour is a client focused, research driven investment manager. Our combination of quantitative, macro-economic and fundamental analysis across both equity and fixed interest markets is dedicated to producing superior investment results.

### Harbour structure

Investment management activities are managed by Harbour staff who conduct research, analysis & portfolio implementation.

The Board of Directors and Compliance Manager oversee the investment management activities and are responsible for reviewing investment performance, compliance with the investment mandates, and processes and outcomes. The Board of Directors aim to meet at least 8 times per annum.

**Ownership: Jarden 78% Harbour staff 22%**



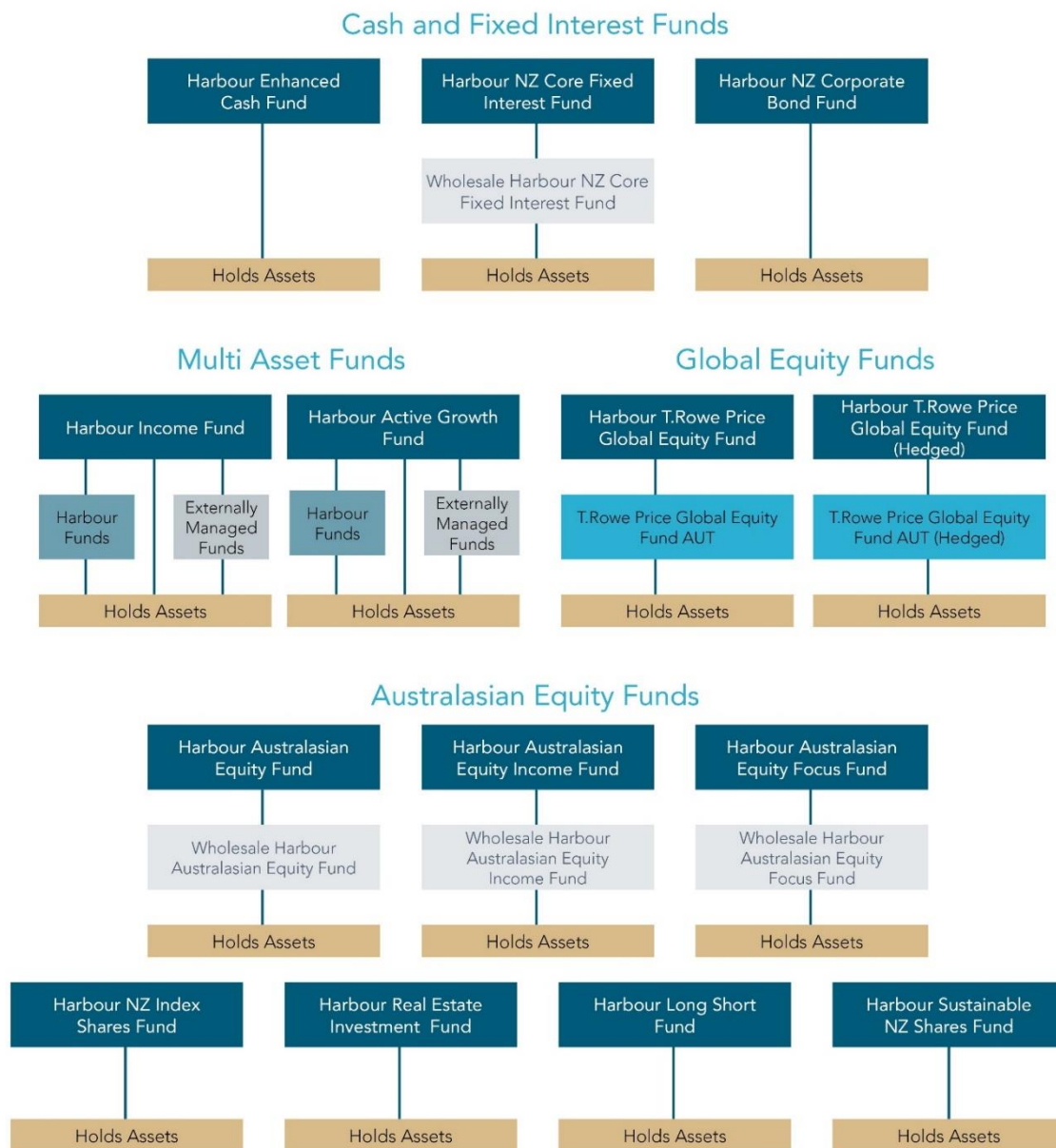
### Fund structure

Harbour Staff are responsible for the overall investment management of the Funds including implementation of the investment strategies, with the exception of the Harbour T. Rowe Price Global Equity Fund and Harbour T.

Rowe Price Global Equity Fund (Hedged), where T. Rowe Price Australia Ltd is responsible for the investment management. The Funds are independent of each other. An investor receives units in a Fund and each unit is of equal value to all other units in that Fund.

A Fund’s assets may be invested directly into market securities, invested into other funds managed by Harbour (both the Funds and funds in the Harbour Wholesale Investment Scheme (Wholesale Funds)) or invested in externally managed Funds approved by us. For more information, please refer to the investment strategies and objectives for each of the Funds outlined in Section 3 below.

At the date of this document, the Harbour NZ Core Fixed Interest Fund, Harbour Australasian Equity Income Fund, Harbour Australasian Equity Fund and Harbour Australasian Equity Focus Fund currently invest directly into Wholesale Funds. The Harbour T.Rowe Price Global Equity Fund invests directly into the T.Rowe Price Global Equity Fund AUT and the Harbour T.Rowe Price Global Equity Fund (Hedged) invests directly into the T.Rowe Price Global Equity (Hedged) Fund AUT managed by T.Rowe Price Australia Ltd. The current structure of each Fund is below:



The Funds are all Portfolio Investment Entities (PIE). On a daily basis each Fund attributes its income or loss, expenses, and tax credits (if applicable) to each investor in proportion to the units they hold and the number of units in the Fund. Tax is paid to the Inland Revenue each year after the 31 March by our Administration Manager, TEL.

If the investor invests through a Portfolio Investor Proxy (PIP) or custodial service, the service will hold the investor's units in the Fund. Taxable income attributed to the PIP or custodial service generally has tax deducted at 0% as the PIP or custodial service is responsible for attributing tax to its investors.

## 3. Investment strategies and objectives

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.

### Harbour Enhanced Cash Fund

#### Description of the Fund

The Harbour Enhanced Cash Fund is an actively managed portfolio that holds liquid money market securities, NZ Government Stock, corporate bonds and bank deposits, all denominated in New Zealand Dollars. The Fund is designed to earn a premium over 90-day bank bills, while aiming to avoid the volatility of traditional fixed interest funds. The maximum permitted duration of the Fund is 2 years. The Fund maintains a core holding of highly liquid securities in order to minimise transaction costs and facilitate investor cash flow requirements at short notice. The Fund also uses hedging instruments to manage interest rate risk within prescribed limits.

#### Investment Objective

The investment objective of the Fund is to outperform the benchmark of the portfolio by 85 basis points per annum over a rolling 3-year period.

#### Benchmark

S&P/NZX Bank Bills 90-Day Index.

#### Distribution

This Fund does not pay distributions.

#### Investment Style

The fund aims to generate returns from two activities. The majority of the return will come from capturing the yield premium that the underlying securities offer over cash. This premium is built from the term, credit and liquidity attributes of the underlying instruments. A research driven investment process and fund structure balances liquidity considerations with premium capture.

The second source of return is through active management of the interest rate exposure. This is achieved by investing in longer maturity assets when interest rates are expected to decline and reducing this exposure when interest rates are relatively low.

Investment criteria will be subject to our Authorised Investments and further limitations will apply as outlined in the Exposure Limits and Credit Exposure Limits below.

#### Benchmark Asset Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change and if we pursue tactical investment opportunities.

| Asset Class                | Benchmark asset allocation (%) | Range (%) |
|----------------------------|--------------------------------|-----------|
| Cash and cash equivalents  | 45%                            | 0-100%    |
| New Zealand Fixed Interest | 55%                            | 0-100%    |

## Authorised Investments

- 1.1. Marketable debt securities
  - a) issued in NZ dollars by the New Zealand Government or Reserve Bank of New Zealand (“RBNZ”); or
  - b) issued in NZ dollars by other issuers that have a long-term rating of BBB- or higher, or a short-term rating of A-1 or higher with Standard and Poor’s.
  
- 1.2. Marketable debt securities include:
  - a) Fixed Rate Bonds with a term to maturity of less than 3 years and 1 month or;
  - b) Floating Rate Notes with a term to maturity of less than 5 years and 1 month or;
  - c) Discount securities including bank RCDs, commercial paper, asset-backed commercial paper and Treasury Bills.
  
- 1.3. Term deposits with banks registered with the RBNZ.
  
- 1.4. The Manager may use NZ Bank Bill futures.
  
- 1.5. The Manager may enter into over-the-counter:
  - a) interest rate swaps, overnight index swaps, forward rate agreements or;
  - b) fully collateralised securities lending and repurchase transactions; and where the counterparty is an approved counterparty and a current ISDA agreement is in place between the Manager and the counterparty. Approved counterparties must have a long-term credit rating at Standard & Poor’s Rating Agency of no less than “A”.
  
- 1.6. Where Standard and Poor’s ratings are not available, the Manager may use Moody’s or Fitch ratings. Where multiple ratings exist, the highest will apply.
  
- 1.7. Unrated securities that satisfy the criteria above may be held, provided that the Manager deems that the securities would most probably achieve a rating of “BBB” or higher if the issuer was to gain a rating. This includes debt issued by Local Authorities.
  
- 1.8. The following investments are not eligible:
  - a) Mortgage Backed Securities, CDOs, CLO’s or;
  - b) Non New Zealand dollar denominated securities, derivatives, currency, collateral or margin or;
  - c) Non New Zealand dollar exchange rate exposure or;
  - d) Interest Rate Options.

## Exposure Limits

**Duration:** The portfolio modified duration must not exceed 2 years.

**Credit Duration:** The portfolio spread duration must not exceed 2 years.

**Liquidity:** A minimum of 15% of the portfolio will be held in Highly Liquid Securities, defined as: cash, New Zealand Government securities with less than 3 years maturity, RCDs issued by a Registered Bank rated A-1, and Commercial Paper rated A-1 with less than 92 days to maturity.

**Exposures:**

- a) The maturity of fixed rate securities must not exceed 3 years and 1 month.
- b) The maturity of floating rate debt securities must not exceed 5 years and 1 month.
- c) Floating rate securities must not exceed 20% of the Fund.
- d) The maturity of Term Deposits must not exceed 7 months.
- e) Exposure to currencies other than the New Zealand Dollar is not permitted.

**Term Deposits:** The maximum exposure to term deposits must not exceed 50%. If client outflows lead exposure to exceed the maximum level, the Manager may hold existing investments until they mature but may not enter new positions until total Term Deposit exposure is back within the 0% - 50% range.

**Unrated Security Assessments:** To be reviewed at least six monthly.

**Derivatives:** The calculation of duration will include the effective duration generated by any interest rate derivative instruments in the Fund.

**Other:** Repurchase transactions in aggregate will not exceed 30% of the portfolio's NAV.

**Credit Exposure Limits**

- a) Aggregate credit exposures:

| <i>Type</i>  | <i>Minimum</i> |
|--|----------------|
| Registered banks*, and other AAA, AA+, AA, AA- long term and A-1+ short-term | 50%            |

| <i>Type</i>  | <i>Maximum</i> |
|--|----------------|
| BBB+, BBB, BBB- rated securities   | 15%            |
| Unrated securities, deemed investment grade by Manager (excluding local authorities) | 5%             |
| Securities with a long-term rating of BB+, short-term rating of A-2, or lower        | Not permitted  |

- b) Maximum individual issuer exposure limits:

| <i>Type of issuer</i>               | <i>Rating</i>   | <i>Limit</i> |
|-------------------------------------|-----------------|--------------|
| New Zealand Government/RBNZ         |                 | 100%         |
| Supnationals or Foreign Governments | AAA             | 15%          |
| Registered banks*                   |                 | 20%          |
| Others                              | AAA             | 10.0%        |
|                                     | AA+, AA, AA-    | 6.0%         |
|                                     | A+, A, A-       | 4.0%         |
|                                     | BBB+, BBB, BBB- | 2.0%         |
|                                     | A-1+            | 6.0%         |
|                                     | A-1             | 4.0%         |
| Local Government Funding Authority  |                 | 20%          |



|   |                          |      |
|---|--------------------------|------|
| Unrated Local Authority   |                          | 4.0% |
| Unrated securities, deemed Investment Grade (excluding local authorities) | Equivalent BBB or higher | 1.5% |

\*"Registered Bank" means a bank registered by the Reserve Bank of New Zealand.

## Harbour NZ Core Fixed Interest Fund

At the date of this document the Harbour NZ Core Fixed Interest Fund is authorised to invest directly into the Wholesale Harbour NZ Core Fixed Interest Fund. As such, the below information reflects the investment guidelines that are applicable to the Wholesale Fund.

### Description of the Fund

The Harbour NZ Core Fixed Interest Fund is an actively traded investment grade portfolio that holds New Zealand Government and corporate bonds. Additional diversification may be gained through holdings of liquid Australian investment grade corporate bonds, whose firms are covered by the Harbour Australasian Equities team. The Fund also uses hedging instruments to efficiently manage interest rate and credit risks in the portfolio and has the ability to make allocations in the US and Australian rate markets when there are pricing discrepancies relative to New Zealand. Foreign currency exposures are hedged back to NZ dollars (NZD).

### Investment Objective

The investment objective of the Fund is to outperform the benchmark by 100 basis points per annum over a rolling 3-year period.

### Benchmark

Bloomberg NZ Bond Composite 0+Yr Index

### Distribution

This Fund intends to pay quarterly distributions in March, June, September and December.

### Investment Style

The Fund aims to generate returns from two activities. The majority of returns will come from investing in a diversified range of New Zealand Government bonds and corporate fixed income securities. This enables the Fund to capture the premium (return) above cash that medium to longer-term securities typically offer. Additional returns are targeted from research-driven and active investment decisions. This may include increasing the duration or credit exposure of the Fund when these are offering attractive returns.

We may add diversification to the Fund by investing in securities issued by Australian investment grade corporate entities. The Fund may use hedging instruments to efficiently manage interest rate risk and credit risk in the Fund. The Fund also has the ability to make allocations in the US and Australian rates markets when there are pricing discrepancies relative to New Zealand fixed interest. Non-NZD credit exposure is capped at 20%. Any exposure to foreign currency is hedged back to NZD.

### Benchmark Asset Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change and if we pursue tactical investment opportunities.

| Asset Class                  | Benchmark Asset Allocation (%) | Range (%) |
|------------------------------|--------------------------------|-----------|
| Cash and cash equivalents    | 5%                             | 0-70%     |
| New Zealand Fixed Interest   | 85%                            | 30-100%   |
| International Fixed interest | 10%                            | 0-20%     |

### Authorised Investments of the Wholesale NZ Core Fixed Interest Fund

- 1.1. New Zealand fixed income investments shall consist of marketable debt securities and bank deposits. These include, but are not limited to, securities:
  - 1.1.1. issued by the New Zealand Government or Reserve Bank of New Zealand; or
  - 1.1.2. issued in NZD by other entities that are rated BBB- or higher by Standard & Poor's.
- 1.2. We may gain additional diversification through bonds of investment grade Australian corporate entities, defined as those members of the Australian iTraxx index.
- 1.3. We may invest in non-NZD securities on a currency hedged basis, issued by New Zealand and eligible Australian entities.
- 1.4. We may enter into exchange traded futures and swaps contracts relating to the securities referred to above, as well as Australian and US Government bond futures and interest rate swaps.
- 1.5. We may enter into over-the-counter interest rate and credit default swaps, credit default swap indices, and forward rate agreements, as well as fully collateralised securities lending and repurchase transactions, where the counterparty is an approved counterparty and a current ISDA agreement is in place between us and the counterparty. Approved counterparties must have a long-term credit rating at Standard & Poor's Rating Agency of no less than A.
- 1.6. Where Standard and Poor's ratings are not available, we may use Moody's or Fitch ratings. Where multiple ratings exist, the highest will apply.
  - 1.7. Unrated securities that satisfy the criteria above may be held, provided that we deem that the securities would most probably achieve a rating of BBB or higher if the issuer was to gain a rating. This includes debt issued by Local Authorities.

### Exposure Limits

**Duration:** The interest rate exposure of the Fund will be limited to +/- 1.5 years from the duration of the portfolio benchmark.

**Liquidity:** A minimum of 10% of the Fund will be held in Highly Liquid Securities, defined as New Zealand Government securities with less than 5 years maturity, money market securities, cash, and other cash equivalents.

**Derivatives:** Notional holdings of Australian and US Government bond futures and interest rate swaps should not exceed 20% of the Net Asset Value (NAV) of the Fund (on a 10 year duration equivalent basis). The calculation of duration will include the effective duration generated by any interest rate derivative instruments in the Fund. The calculation of total credit exposures will include the effective credit risk net of any credit derivative instruments in the Fund.

**Other:** Repurchase transactions in aggregate will not exceed 30% of the Fund's NAV.

### Currency Management

Aggregate non-NZD credit exposures must not exceed 20% of the NAV of the Fund. All non-NZD risk will be hedged to NZD (with the trading tolerance of +/-2% of the Fund's NAV).

## Credit Exposure Limits

- a) The New Zealand fixed income portfolio shall be invested in securities issued by or guaranteed by the New Zealand Government or an Agency of the New Zealand Government within the following limits:

| <i>Minimum</i> | <i>Maximum</i> |
|----------------|----------------|
| 30%            | 100%           |

- b) Total credit exposures to other entities must not exceed the following limits:

| <i>Type</i>   | <i>Maximum</i> |
|---|----------------|
| All other entities  | 70%            |
| BBB, including unrated securities (excluding local authorities) | 7.5%           |
| Subordinate and perpetual debt                                  | 10%            |
| Unrated securities (excluding local authorities)                | 5%             |

- c) Maximum individual issuer exposure limits:

| <i>Type of issuer</i>                            | <i>Rating</i>   | <i>Limit</i> |
|--|---|--------------|
| NZ Government                                    |   | 100%         |
| Supnationals or Foreign Governments              | AAA   | 15%          |
| Registered banks                                 | AAA covered and government guaranteed (+ all other bank debt) | 10%          |
|  | Senior unsecured (+T1 and T2)                                 | 6%           |
|  | Tier 1 and Tier 2   | 2%           |
| Others   | AAA   | 8%           |
|  | AA+, AA, AA-  | 6%           |
|  | A+, A, A-   | 4%           |
|  | BBB+, BBB, BBB-   | 1%           |
| Local Government Funding Authority (LGFA)        |   | 20%          |
| Unrated securities (excluding local authorities) | Equivalent BBB or higher                                      | 1.5%         |

## Harbour NZ Corporate Bond Fund

### Description of the Fund

The Fund is designed to provide access to favourable income yields through a diversified portfolio of primarily investment grade corporate bond fixed interest securities.

Investments of the Fund are to have what we consider to be a low or low-to-medium investment risk profile so that we can seek to maintain an average credit rating of A-.

### Investment Objective

The investment objective of the Fund is to exceed the return of the benchmark portfolio after fees on a rolling 12-month basis.

## Benchmark

S&P/NZX A-Grade Corporate Bond Total Return Index.

## Distribution

This Fund intends to pay quarterly distributions in March, June, September and December.

## Investment Style

The Fund aims to capture the credit and liquidity premium attached to corporate bonds, bank securities and local authority stock. This comes in the form of higher yields than are normally available from government stock.

The Fund aims to add value through a diversified selection of investment grade fixed interest securities.

The Fund's returns will be mainly derived from the term structure of prevailing market interest rates as well as credit risk premium, which is the margin earned above the risk free or government guaranteed rate.

The primary sources of risk management are diversification, credit research and constraints on exposures such as subordinate-ranking securities.

## Benchmark Asset Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations, as market conditions change and if we pursue tactical investment opportunities.

| Asset Class                | Benchmark asset allocation (%) | Range (%) |
|----------------------------|--------------------------------|-----------|
| Cash and cash equivalents  | 5%                             | 0-100%    |
| New Zealand Fixed Interest | 95%                            | 0-100%    |

## Authorised Investments

We will only invest in the following cash, deposit or other security types:

- 1.1. On-call cash or bank deposits at a 'registered bank' under section 69 of the Reserve Bank of New Zealand Act 1989 with a minimum long-term credit rating of A+ from Standard & Poor's rating agency.
- 1.2. Debt securities denominated in NZD that have a long-term credit rating of not less than BBB-, or a short-term rating of not less than A-3 from Standard & Poor's rating agency.
- 1.3. Debt securities issued by New Zealand entities denominated in non-NZD, on a currency and interest rate hedged basis.
- 1.4. Preference shares denominated in NZD and issued under New Zealand or Australian legal jurisdiction with a long-term credit rating of not less than BBB- from Standard & Poor's rating agency.
- 1.5. Securities that qualify as Tier 1 or Tier 2 capital for banks registered in New Zealand with a long-term credit rating of not less than BBB- from Standard & Poor's rating agency.
- 1.6. Unrated securities provided that we, in our judgement, determine that the issue would have a rating of not less than BBB- from Standard & Poor's rating agency, if a rating was sought.
- 1.7. Derivative contracts, where the underlying risk relates to interest rate, foreign currency or credit risk. Eligible derivative contracts include interest rate futures, options, interest rate swaps, credit default swaps, foreign exchange forwards, foreign exchange swaps and cross currency swaps. Options, swaps and credit default swaps must be entered with a counterparty with a minimum

long-term credit rating of A at Standard & Poor's and a current ISDA agreement must be in place between the counterparty and the Fund or us.

## Exposure Limits

**Duration:** The duration of the Fund is to be kept within 0.5 years of the duration of the Benchmark.

**Credit Duration:** The credit duration of the Fund is to be kept within 1 year of the modified duration of the Benchmark. (Note: The credit duration is a measure of sensitivity to credit risk premiums, just as normal duration measures sensitivity to interest rate changes. Including this rule ensures we capture the credit spread risk of reset and floating rate securities that have short duration but long-term credit risk.)

**Liquidity:** A minimum of 5% of the Fund will be held in Highly Liquid Securities, defined as New Zealand Government securities with less than 5 years maturity, money market securities, cash, and other cash equivalents.

**Credit Exposures:** The credit exposure limits outlined in the following table are not to be exceeded.

**Unrated Security Assessments:** To be reviewed at least 6-monthly.

**Derivatives:** The calculation of duration will include the effective duration generated by any interest rate derivative instruments in the Fund. The calculation of total credit exposures will include the effective credit risk, net of any credit derivative instruments in the Fund. The calculation of total non-NZD exposures will be calculated net of any foreign exchange derivatives in the Fund.

## Currency Management

Aggregate non-NZD credit exposures must not exceed 20% of the NAV of the Fund. All non-NZD risk will be hedged to NZD (with the trading tolerance of +/-2% of the portfolio NAV).

## Credit Exposure Limits

|  | Max % of Total Fund with Single Issuer | Max% of total Fund with Class of Issue                     | Credit Rating                                   |
|--|--|--|---|
| <b>Fixed Interest</b>  |  |  |   |
| New Zealand Government Bonds   | 100%                                   | 100%   |   |
| Investment Grade Corporate Bonds (AAA to A-)                                     | 10%                                    | 60%  | A- or better, A-2 or better<br>Commercial Paper |
| Investment Grade Corporate Bonds (BBB+ to BBB-)                                  | 3%                                     | 15% (including unrated bonds that are not Local Authority) | BBB-, BBB and BBB+, A-3<br>Commercial Paper     |
| NZ Local Government Funding Authority (LGFA)                                     | 50%                                    | 50%  |   |
| Other Local Authority Stock  | 10%                                    | 30%  | if not rated, issue must be secured by rates    |
| Registered Banks, including subordinate securities issued by bank-owned entities | 12%                                    | 60%  | A- or better                                    |

|  |      |     | Senior unsecured rating  |
|--|------|-----|--------------------------|
| State Owned Enterprise Bonds   | 10%  | 40% | BBB+ or better           |
| Unrated Corporate Bonds (Excluding Local Authority Stock)  | 3%   | 5%  | Unrated With IC approval |
| Subordinate Debt, including Capital Notes and Bank Tier1 and Tier 2 securities, including Perpetual Debt | 3%   | 20% | BBB- or better           |
| Perpetual Debt   | 2.5% | 10% | BBB- or better           |

Note: Any Subordinate or Perpetual security exposure shall be included in the calculation of total exposure for an Issuer. Therefore a 2.5% Tier 1 bank holding would then allow a 9.5% senior-ranking exposure. In addition, any long-term bank exposure is to be included in the measurement of short-term exposure limits.

## Harbour Income Fund

### Description of the Fund

The Fund is designed to provide a favourable level of income. The Fund invests predominantly in New Zealand investment grade fixed interest securities and Australasian equities which pay a sustainable dividend yield. Other tools, such as active management and scope to invest in sub investment grade securities may also be used to enhance returns.

### Investment Objective

The objective is to exceed the Official Cash Rate (OCR) plus 3.5% pa over rolling 3-year periods.

### Benchmark

A composite benchmark composed of indices that reflects the strategic asset allocation of the Fund as follows: 68% S&P/NZX A- Grade Corporate Bond Total Return Index; 16% S&P/ASX 200 Industrials Index (100% hedged to NZ Dollars); and 16% S&P/NZX Portfolio Index.

### Distribution

This Fund intends to pay monthly distributions.

### Investment Style

The Fund will invest in a range of fixed income securities, loans and equity securities that are compatible with generating a favourable level of income through different economic environments. Returns will be predominantly driven by the mix of New Zealand fixed interest securities and dividend-paying Australasian equities. To enhance expected returns and manage risk, the Fund will be actively managed drawing on Harbour research resources. Diversification is a key technique used to reduce the volatility of investment returns. The Fund also seeks to reduce exposures when we identify significant downside risks. The Fund has a medium-term investment horizon.

### Benchmark Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change and if we pursue tactical investment opportunities.

| Asset Class                  | Benchmark asset allocation (%) | Range (%) |
|------------------------------|--------------------------------|-----------|
| Cash and cash equivalents    | 8%                             | 5-40%     |
| NZ Fixed interest            | 50%                            | 20-90%    |
| International Fixed Interest | 10%                            | 0-30%     |
| Australasian equities        | 32%                            | 0-40%     |
| International equities       | 0%                             | 0-20%     |

### Authorised Investments

- 1.1. Cash and short duration fixed interest assets.
- 1.2. New Zealand Fixed interest securities, predominantly New Zealand investment grade corporate bonds. New Zealand Government bonds, Local Authority bonds, and other NZ dollar denominated bonds are also permitted.
- 1.3. International fixed interest
- 1.4. Other income generating assets, such as non-investment grade corporate bonds, convertible bonds, private market credit (i.e. debt funding that is not actively traded in public markets), loan products, asset-backed securities, preference shares, and securities that qualify as Tier 1 or Tier 2 capital for registered banks.
- 1.5. Listed New Zealand & Australian equities.
- 1.6. Listed and unlisted Property.
- 1.7. Listed international equities.
- 1.8. Derivative contracts, where the underlying risk relates to interest rate, foreign currency, equity or credit risk.
- 1.9. Units or sub-units of any collective investment vehicle (both managed by Harbour and externally managed) where the underlying assets are principally those listed in 1.1 to 1.8 above.

### Exposure Limits

| Asset Class  | Benchmark asset allocation (%) | Range (%)          |
|--|--------------------------------|--------------------|
| Cash and cash equivalents                                  | 8%                             | 5-40%              |
| Investment grade fixed interest                            | 40%                            | 20-90%             |
| Non-investment grade fixed interest                        | 5%                             | 0-20%              |
| Private credit   | 15%                            | 0-30%              |
| Australasian equity income*                                | 27%                            | 0-40%              |
| Australasian equity focus                                  | 5%                             | 0-15%              |
| International equity                                       | 0%                             | 0-20%              |
| <i>Total loans and non-investment grade fixed interest</i> |                                | <i>Maximum 30%</i> |
| <i>Total equities</i>                                      |                                | <i>Maximum 40%</i> |

\*May include Australasian Listed Property securities.

**Liquidity:** A minimum of 5% of the Fund will be held in Highly Liquid Securities, defined as New Zealand Government securities with less than 5 years maturity, money market securities, cash, and other cash equivalents.

**Duration:** The Fund's neutral modified duration for fixed interest securities in the portfolio will be 4 years. The allowable range of portfolio duration will be from - 2 years to + 8 years.

**International fixed interest:** A maximum of 30% exposure to international fixed interest, including investment grade fixed interest, non-investment grade fixed interest and loans.

**Derivatives:** The calculation of duration, currency, credit and equity exposures will include the effective exposure from any derivatives in the Fund.

**Counterparty exposures:** Over-the-counter derivative contracts must be entered with a counterparty with a minimum long-term credit rating of A at Standard & Poor's and a current ISDA agreement must be in place between the counterparty and the Fund or us.

**Leverage:** The effective exposure of equity and corporate credit must not result in the Fund being levered with regards to equity and credit risk. The effective fixed interest exposure of the Fund will not be considered to be leveraged if the portfolio duration is within the permitted range for the Fund.

**Investment in externally managed underlying funds:** Harbour may have up to 30% of the Net Asset Value of the Fund invested in a fund or funds managed by an external manager. These underlying holdings will be captured within the overall investment guidelines of the Fund.

## Currency Management

The neutral foreign exchange position of the Fund is 100% hedged to NZD. The allowable range of currency exposure to the Australian dollar for the overall Fund is +/- 10%. The allowable range of currency exposure to the currencies in the New Zealand Trade Weighted Index (TWI) basket is +/- 10% in aggregate.

## Harbour Long Short Fund

### Description of the Fund

The Fund is an actively managed, high conviction portfolio investing principally in 'long' and 'short' listed Australasian 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.

We can actively allocate investments between Australasian listed equities, fixed interest and cash. The Fund may also use derivatives to hedge currency and equity risk.

### Investment Objective

The investment objective of the Fund is to deliver positive absolute returns through the economic cycle with low volatility and low correlation of returns with equity markets.

### Benchmark

The Fund does not follow a particular equity benchmark. However, the following is the appropriate market index & has been used to calculate risk indicator prior to the Fund's inception: 15% S&P NZX50 Index; 15% S&P/ASX 200 Index & 70% S&P/NZX Bank Bills 90-Day Index.

The Fund's hurdle rate of return for performance fee calculation is: S&P/NZX Bank Bills 90-Day Index plus 2%.



## Distribution

This Fund does not pay distributions.

## Investment Style

An active research-driven investment process which principally invests in a focused selection of companies highly-rated by Harbour investment analysts and largely consistent with the overweight positions in Harbour's core Australasian Equity Fund. As a result, the Fund invests in equities which portfolio managers have high conviction in.

The Fund will hold 'long' equity positions across the NZ and Australian share markets reflecting our conviction in companies which can provide medium to long term capital growth. The Fund will also be able to 'short-sell' securities. These will typically be companies which rank poorly on fundamental and quantitative signals. The Fund will also hold cash and utilise currency management to generate returns.

## Benchmark Asset Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change and if we pursue tactical investment opportunities.

| Asset Class               | Benchmark asset allocation (%) | Range – Net (%) |
|---------------------------|--------------------------------|-----------------|
| Cash and cash equivalents | 70%                            | 0 - 130%        |
| Australasian Equities     | 30%                            | -30 - +60%      |
| NZ Fixed Interest         | 0%                             | 0 - 30%         |

## Authorised Investments

- 1.1. Investment in shares, warrants, rights, bonus issues, equity swaps, options or securities in such companies that are convertible into ordinary shares, and index products that are:
  - 1.1.1. listed on the NZX (or have been publicly announced that they will be listed on the NZX);
  - 1.1.2. listed on the ASX (or have been publicly announced that they will be listed on the ASX); or
  - 1.1.3. unlisted but we expect the company to have liquidity either through a future listing or market related event. Exposures to unlisted securities are subject to tight exposure limits.
- 1.2. Investments in convertible debt instruments, provided the equity to which they convert satisfies the requirements of Item 1.1 above.
- 1.3. Options and exchange traded futures in respect of the type referred in Item 1.1 above.
- 1.4. Stock borrowing, and or short selling of investments as described in 1.1-1.3 above.
- 1.5. Investments in partly-paid shares in respect of the type referred in Item 1.1 above provided that the shares are included or are to be included in the benchmark; or that the aggregate amount of the unpaid portion is fully covered by cash or cash equivalents.
- 1.6. Spot and forward foreign exchange contracts.
- 1.7. Cash and cash equivalents.
- 1.8. On-call cash or bank deposits at a 'registered bank' under section 69 of the Reserve Bank of New Zealand Act 1989 with a minimum long-term credit rating of A+ from Standard & Poor's rating agency.
- 1.9. Debt securities denominated in NZD that have a long-term credit rating of not less than BBB-, or a short-term rating of not less than A-3 from Standard & Poor's rating agency.

- 1.10. Preference shares denominated in NZD and issued under New Zealand or Australian legal jurisdiction with a long-term credit rating of not less than BBB- from Standard & Poor's rating agency.
- 1.11. Securities that qualify as Tier 1 capital for banks registered in New Zealand with a long-term credit rating of not less than BBB- from Standard & Poor's rating agency.
- 1.12. Unrated securities provided that we, in our judgement, determine that the issue would have a rating of not less than BBB- from Standard & Poor's rating agency, if a rating was sought.
- 1.13. Unrated securities that satisfy the criteria above may be held, provided that we deem that the securities would most probably achieve a rating of BBB or higher if the issuer was to gain a rating. This includes debt issued by Local Authorities.
- 1.14. Units or sub-units of any collective investment vehicle managed by Harbour where the underlying assets are principally those listed in 1.1 to 1.13 above.

## Exposure Limits

|   | Minimum percentage of the Net Asset Value of the Portfolio | Maximum percentage of the Net Asset Value of the Portfolio |
|---|--|--|
| Cash and cash equivalents   | 0%   | 130%   |
| Gross Equity Exposure   | 0%   | 200%   |
| Net Equity Exposure   | -30%   | 60%  |
| Unlisted equities - New Zealand or Australian   | 0%   | 4%   |
| Maximum individual equity issuer exposure limits either long or short positions:                                    |  |  |
| Individual company in the S&P/NZX10 or S&P/ASX100 Benchmark   | 0%   | 15%  |
| Individual company outside the S&P/NZX10 or S&P/ASX100 but where its market capitalisation is greater than NZ\$500m | 0%   | 10%  |
| Individual company not in the S&P/NZX10 or S&P/ASX100 where its market capitalisation is less than NZ\$500m         | 0%   | 8%   |
| Individual unlisted equity – NZ or Australian   | 0%   | 2%   |

**Prohibitions:** Borrowing of cash is not permitted.

**Short-selling:** Short-selling and borrowing of stock is permitted.

**Liquidity:** Alongside cash holdings the Fund invests in securities listed on the NZX and ASX Stock exchanges which are able to be liquidated if required in a reasonable time period.

## Currency Management

Active management of currency hedging with a range from 0-100% of Australian dollar exposure. Currency exposure is managed in the derivative market using forwards and currency swaps.

## Harbour NZ Index Shares Fund

*(transitioned from Harbour NZ Equity Advanced Beta Fund to Harbour NZ Index Shares Fund on 1 April 2021)*

## Description of the Fund

The Harbour NZ Index Shares Fund is a passive fund managed against companies in the S&P NZX Portfolio Index.

## Investment Objective

The Fund's objective is to provide a return (before tax, fees, and other expenses) that closely tracks the S&P/NZX Portfolio Index including imputation credits.

## Benchmark

The benchmark of the fund is the S&P/ NZX 50 Portfolio Index including imputation credits.

## Distribution

The Fund intends to pay 6 monthly distributions in March and September.

## Investment Style

The Fund is passively managed tracking the companies in the S&P NZX Portfolio Index. The Fund has the ability to implement securities lending. Securities lending involves the transfer of legal title and beneficial interest in securities to a third-party borrower, in some cases against collateral security, and in other cases with other appropriate risk mitigation arrangements.

## Benchmark Asset Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change, and if we pursue tactical investment opportunities.

| Asset Class                              | Benchmark asset allocation (%) | Range (%) |
|--|--------------------------------|-----------|
| Cash and cash equivalents                | 1%                             | 0-5%      |
| Australasian Equities (New Zealand only) | 99%                            | 95-100%   |

## Authorised Investments

- 1.1. Any equity security listed or contemplated to be listed that are included (or will be included) in the S&P/NZX Portfolio Index.
- 1.2. Any right or option to acquire or take up any equity security. For the avoidance of doubt, the fund will be entitled to take up its pro rata entitlement, which in certain circumstances due to timing when the index provider includes the change, may mean the fund holds a higher weight for a period than what is shown below.
- 1.3. Cash.

## Exposure Limits

|  | Minimum percentage of the Net Asset Value of the Portfolio | Maximum percentage of the Net Asset Value of the Portfolio |
|--|--|--|
| New Zealand Equities and Dual listed Australian Equities plus Net Delta Weighted Exposure to Derivative Securities | 95%  | 100%   |
| Net Delta Weighted Exposure to Derivative Securities   | 0%   | 20%  |
| Cash and Cash Equivalents  | 0%   | 5%   |
| Individual company   | 0%   | Benchmark weight +0.5%                                     |
| Short-term Borrowing for liquidity   | 0%   | 5%   |
| Securities Lending   | 0%   | 20%  |

**Prohibitions:** Leverage is not permitted; short selling is not permitted.

**Short term Borrowing:** The fund may borrow up to 5% of the Net Asset Value for the purpose of meeting redemptions or other expenses.

**Risk Tolerance:** Expected ex ante tracking error less than 0.50% over a 5-year rolling period.

**Securities Lending:** The Fund has the ability to implement securities lending. Securities lending involves the transfer of legal title and beneficial interest in securities to a third-party borrower, in some cases against collateral security, and in other cases with other appropriate risk mitigation arrangements.

**Liquidity:** Alongside cash holdings the Fund invests in securities listed on the NZX which are able to be liquidated if required in a reasonable time period.

**Currency Management:** All investments will be in NZD.

## Harbour Sustainable NZ Shares Fund

### Description of the Fund

The Fund is managed against companies in the S&P NZX Portfolio Index, with exclusions to companies that are exposed to large carbon emitters, alcohol, gambling, munitions, adult entertainment, nuclear armaments, firearms, tobacco and recreational cannabis, child labour and companies with human and animal right violations. There will also be positive and negative tilts to the remaining companies based on Harbour's proprietary Corporate Behaviour Score.

### Investment Objective

The Fund's objective is to provide investors exposure to constituents of the S&P/NZX Portfolio Index with exclusions to companies that do not meeting Harbours' criteria of Responsible investing.

## Benchmark

The benchmark of the fund is the S&P/ NZX 50 Portfolio Gross Index Including imputation.

## Distribution

The Fund intends to pay 6 monthly distributions in March and September.

## Investment Style

The Fund is passively managed tracking the companies in the S&P NZX Portfolio Index, with exclusions to companies that are exposed to large carbon emitters, alcohol, gambling, munitions, adult entertainment, nuclear armaments, firearms, child labour and companies with human and animal right violations. 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. Securities lending involves the transfer of legal title and beneficial interest in securities to a third-party borrower, in some cases against collateral security, and in other cases with other appropriate risk mitigation arrangements.

## Benchmark Asset Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change, and if we pursue tactical investment opportunities.

| Asset Class                              | Benchmark asset allocation (%) | Range (%) |
|--|--------------------------------|-----------|
| Cash and cash equivalents                | 1%                             | 0-5%      |
| Australasian Equities (New Zealand only) | 99%                            | 95-100%   |

## Authorised Investments

1.1. Any equity security listed or contemplated to be listed that are included (or will be included ) in the S&P/NZX Portfolio Index.

1.2. Any right or option to acquire or take up any equity security. For the avoidance of doubt, the fund will be entitled to take up its pro rata entitlement, which in certain circumstances due to timing when the index provider includes the change, may mean the fund holds a higher weight for a period than what is shown below.

1.3. Cash.

## Summary of Harbours' exclusion criteria

- 0% revenue exposure threshold on manufacture/involvement in:
  - Alcohol
  - Gambling
  - Tobacco
  - Adult entertainment
  - Munitions, nuclear armaments and firearms
  - Animal testing – non-pharmaceutical
  - Animal welfare – factory farming
  - Recreational cannabis

- 10% revenue exposure threshold on distribution/sales of:
  - Alcohol
  - Tobacco
  - Adult entertainment
- Carbon emitter threshold:
  - 2.5m tonnes CO2e in total scope 1, 2 and 3 emissions per annum
- Human rights and Child labour:
  - UN Global Compact Compliance (Pass/Fail)

## Exposure Limits

|  | Minimum percentage of the Net Asset Value of the Portfolio | Maximum percentage of the Net Asset Value of the Portfolio |
|--|--|--|
| New Zealand Equities and Dual listed Australian Equities plus Net Delta Weighted Exposure to Derivative Securities | 95%  | 100%   |
| Net Delta Weighted Exposure to Derivative Securities   | 0%   | 20%  |
| Cash and Cash Equivalents  | 0%   | 5%   |
| Individual company   | 0%   | Benchmark weight +1.5%                                     |
| Short-term Borrowing for liquidity   | 0%   | 5%   |
| Securities Lending   | 0%   | 20%  |

**Prohibitions:** Leverage is not permitted; short selling is not permitted.

**Short term Borrowing:** The fund may borrow up to 5% of the Net Asset Value for the purpose of meeting redemptions or other expenses.

**Securities Lending:** The Fund has the ability to implement securities lending. Securities lending involves the transfer of legal title and beneficial interest in securities to a third-party borrower, in some cases against collateral security, and in other cases with other appropriate risk mitigation arrangements.

**Liquidity:** Alongside cash holdings the Fund invests in securities listed on the NZX which are able to be liquidated if required in a reasonable time period.

**Currency Management:** All investments will be in NZD.

# Harbour Real Estate Investment Fund

## Description of the Fund

The fund aims to capture the income yield and medium-term capital growth characteristics of investing principally in listed real estate assets and enhance diversification and return potential against the S&P/NZX All Real Estate Index.

## Investment Objective

The investment objective of the Fund is to exceed the benchmark return plus 1% per annum over the medium term.

## Benchmark

The benchmark of the fund is the S&P/NZX All Real Estate Index (gross including imputation credits).

## Distribution

This Fund intends to pay 6 monthly distributions in March & September.

## Investment Style

The Fund's returns are predominantly derived from investing in a diversified portfolio of New Zealand and Australian real estate securities which can sustain income yield and grow capital over time. The Fund's investment process blends a combination of active company research and use of a quantitative overlay. To diversify risk and enhance medium term returns, the Fund may invest in New Zealand and Australian listed securities that derive their economic value from the control of real estate assets that are not included in listed property benchmark indices, international listed real estate securities, unlisted New Zealand and Australian property securities and debt and convertible securities, where such investments represent attractive risk adjusted investments for the fund.

## Benchmark Asset Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change, and if we pursue tactical investment opportunities.

| Asset Class                  | Benchmark asset allocation (%) | Range (%) |
|------------------------------|--------------------------------|-----------|
| Cash and cash equivalents    | 2.5%                           | 0-20%     |
| New Zealand Fixed Interest   | 0%                             | 0-10%     |
| International Fixed Interest | 0%                             | 0-5%      |
| Australasian Equities        | 12.5%                          | 0-30%     |
| International Equities       | 0%                             | 0-10%     |
| Listed property              | 85%                            | 50-100%   |
| Unlisted property            | 0%                             | 0-10%     |

## Authorised Investments of the Real Estate Investment Fund

- 1.1. Investment in shares, warrants, rights, bonus issues, options or securities in such companies that are convertible into ordinary shares, and index products that are:
  - 1.1.1. listed on the NZX (or have been publicly announced that they will be listed on the NZX); or
  - 1.1.2. listed on the ASX (or have been publicly announced that they will be listed on the ASX); or
  - 1.1.3 listed or due to be listed, on recognized exchanges and/or markets throughout the world.
- 1.2. Investments in convertible debt instruments, provided the equity to which they convert satisfies the requirements of Item 1.1 above.

- 1.3. Options and exchange traded futures in respect of the type referred in Item 1.1 above.
- 1.4. Investments in partly-paid shares in respect of the type referred in Item 1.1 above provided that the shares are included or are to be included in the benchmark; or that the aggregate amount of the unpaid portion is fully covered by cash or cash equivalents.
- 1.5. Spot and forward foreign exchange contracts.
- 1.6. NZ Fixed Interest.
- 1.7. International Fixed interest.
- 1.8. Cash and cash equivalents.
- 1.9. Investments in unlisted listed property securities or units issued by established real estate entities.
- 1.10. Units or sub-units of any collective investment vehicle (both managed by Harbour and externally managed) where the underlying assets are principally those listed in 1.1 to 1.9 above.

## Exposure Limits

|  | Minimum percentage of the Net Asset Value of the Fund | Maximum percentage of the Net Asset Value of the Fund |
|--|---|---|
| New Zealand Equities and Australian Equities plus Net Delta Weighted Exposure to Derivative Securities | 65%   | 100%  |
| Cash and Cash Equivalents  | 0%  | 20%   |
| New Zealand Fixed Interest   | 0%  | 10%   |
| International Fixed Interest   | 0%  | 5%  |
| New Zealand Equities   | 0%  | 15%   |
| Australian Equities  | 0%  | 15%   |
| International Equities   | 0%  | 10%   |
| New Zealand listed property  | 50%   | 100%  |
| Australian listed property   | 0%  | 25%   |
| International listed property  | 0%  | 10%   |
| Unlisted property securities   | 0%  | 10%   |
| Net Delta Weighted Exposure to Derivative Securities   | 0%  | 30%   |
| Maximum individual equity issuer exposure limits:  |   |   |
| Individual company in the Benchmark  | 0%  | Benchmark weight +10%                                 |



|  |    |    |
|--|----|----|
| Individual company not in the Benchmark where its market capitalisation is greater than NZ\$500m | 0% | 8% |
| Individual company not in the Benchmark where its market capitalisation is less than NZ\$500m    | 0% | 3% |

**Prohibitions:** Borrowing is not permitted; leverage is not permitted; short selling is not permitted.

**Securities Lending:** The Fund has the ability to implement stock lending. Stock lending involves the transfer of legal title and beneficial interest in securities to a third-party borrower, in some cases against collateral security, and in other cases with other appropriate risk mitigation arrangements.

**Liquidity:** Alongside cash holdings the Fund invests in securities listed on the NZX and ASX Stock exchanges, and recognized exchanges and/or markets throughout the world which are able to be liquidated if required in a reasonable time period.

**Currency Management:** Between 75-100% of the Australian and international exposure will be hedged back to back to NZD. Currency exposure is managed in the derivative market using forwards and currency swaps.

## Harbour Australasian Equity Income Fund

At the date of this document the Harbour Australasian Equity Income Fund is authorised to invest directly into the Wholesale Harbour Australasian Equity Income Fund. As such, the below information reflects the investment guidelines that are applicable to the Wholesale Fund.

### Description of the Fund

The Fund is an actively managed strategy that invests predominantly in New Zealand and Australian listed equities that generate attractive dividend yields as well as cash and fixed interest securities.

### Investment Objective

The performance objective of the Fund is to generate higher yield than the New Zealand and Australian markets.

### Benchmark

The Fund does not follow a particular benchmark. However, the following is the appropriate market index & has been used to calculate the risk indicator prior to the Fund's inception: 60% S&P/ASX Industrials Index (equally weighted and 90% hedged to NZD) and 40% S&P/NZX 50 Portfolio Index.

### Distribution

This Fund intends to pay quarterly distributions in March, June, September and December.

### Investment Style

The investment process blends a strong quantitative selection process across Australasia with a quality and fundamental overlay. Each potential investment is then subject to five further quantitative tests including dividend and cash flow yields, dividend growth potential, and relative valuation criteria. A final portfolio of about 40-60 names is then subject to further quality tests and a fundamental analyst score, to assist in refining both the number of stocks (prior to the final portfolio construction process).

### Benchmark Asset Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change, and if we pursue tactical investment opportunities.

| Asset Class                                   | Benchmark asset allocation (%) | Range (%) |
|---|--------------------------------|-----------|
| Cash and cash equivalents & NZ Fixed Interest | 10%                            | 0-35%     |
| Australasian Equities                         | 90%                            | 65-100%   |

### Authorised Investments of the Wholesale Australasian Equity Income Fund

- 1.1. Investment in shares, warrants, rights, bonus issues, options or securities in such companies that are convertible into ordinary shares, and index products that are:
  - 1.1.1. listed on the NZX (or have been publicly announced that they will be listed on the NZX); or
  - 1.1.2. listed on the ASX (or have been publicly announced that they will be listed on the ASX).
- 1.2. Investments in convertible debt instruments, provided the equity to which they convert satisfies the requirements of Item 1.1 above.
- 1.3. Options and exchange traded futures in respect of the type referred in Item 1.1 above.
- 1.4. Investments in partly-paid shares in respect of the type referred in Item 1.1 above provided that the shares are included or are to be included in the benchmark; or that the aggregate amount of the unpaid portion is fully covered by cash or cash equivalents.
- 1.5. Spot and forward foreign exchange contracts.
- 1.6. NZ Fixed Interest.
- 1.7. Cash and cash equivalents.
- 1.8. Units or sub-units of any collective investment vehicle managed by Harbour where the underlying assets are principally those listed in 1.1 to 1.8 above.

### Exposure limits

|   | Minimum percentage of the Net Asset Value of the Fund | Maximum percentage of the Net Asset Value of the Fund |
|---|---|---|
| New Zealand Equities and Australian Equities plus Net Delta Weighted Exposure to Derivative Securities              | 65%   | 100%  |
| Cash and Cash Equivalents & Fixed Interest Investments  | 0%  | 35%   |
| Net Delta Weighted Exposure to Derivative Securities  | 0%  | 30%   |
| Maximum individual equity issuer exposure limits:   |   |   |
| Individual company in the S&P/NZX10 or S&P/ASX100 Benchmark   | 0%  | 10%   |
| Individual company outside the S&P/NZX10 or S&P/ASX100 but where its market capitalisation is greater than NZ\$500m | 0%  | 6%  |

|   |    |    |
|---|----|----|
| Individual company not in the S&P/NZX10 or S&P/ASX100 where its market capitalisation is less than NZ\$500m                       | 0% | 4% |
| Maximum individual fixed interest issuer exposure limits are determined within the underlying limits of the fixed interest Funds. |    |    |

**Prohibitions:** Borrowing is not permitted; leverage is not permitted; short selling is not permitted.

**Liquidity:** Alongside cash holdings the Fund invests in securities listed on the NZX and ASX Stock exchanges which are able to be liquidated if required in a reasonable time period.

### Currency Management

We hedge between 90-95% of the Australian exposure back to NZD for New Zealand investors. We believe that this is prudent to continue to reduce portfolio volatility back to the base currency of investors for this Fund. The simulated back-testing has used a 90% hedging level.

## Harbour Active Growth Fund

### Description of the Fund

The Fund is designed to provide investors with 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 one third into more defensive assets, predominantly investment grade bonds. The Manager will use active management to enhance returns and manage downside risks.

### Investment Objective

The objective is to exceed the Official Cash Rate (OCR) plus 5% over rolling 5-year periods.

### Benchmark

A composite benchmark which reflects the asset allocation of the Fund as follows: 5% S&P/NZX Bank Bills 90-day Index, 25% Bloomberg Composite 0+ Yr Index, 10% 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), 30% MSCI All Country World Index (unhedged).

### Distribution

The Fund intends to pay monthly distributions

### Investment Style

The Fund will invest in a wide range of domestic and global assets. Returns of the Fund will be predominately driven by share markets though this will be augmented by holding fixed interest securities. To enhance expected returns and manage risk, the Fund will be actively managed drawing on Harbour's research resources and the views of Harbour's Asset Allocation Committee. Diversification is a key technique used to reduce the volatility of investment returns. The Fund also seeks to reduce exposures within the ranges specified in this document, when we identify significant downside risks. The Fund has a long-term (seven year plus) investment horizon.

### Benchmark Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change and if we pursue tactical investment opportunities.

| Asset Class                  | Benchmark asset allocation (%) | Range (%) |
|------------------------------|--------------------------------|-----------|
| Cash and cash equivalents    | 5%                             | 2.5-30%   |
| NZ Fixed interest            | 25%                            | 10-50%    |
| International Fixed Interest | 0%                             | 0-50%     |
| Unlisted Property            | 0%                             | 0-10%     |
| Listed Property              | 10%                            | 0-30%     |
| Australasian equities        | 30%                            | 0-60%     |
| International equities       | 30%                            | 0-60%     |
| Other                        | 0%                             | 0-35%     |

## Authorised Investments

- 1.1. Cash and short duration fixed interest assets.
- 1.2. New Zealand Fixed interest securities, predominantly New Zealand investment grade corporate bonds. New Zealand Government bonds, Local Authority bonds, and other NZ dollar denominated bonds are also permitted.
- 1.3. International fixed interest, predominantly investment grade corporate and government bonds.
- 1.4. Other includes non-investment grade corporate bonds, loans, loan products, asset-backed securities, preference shares, long/short equities, private equity (including venture capital) and listed infrastructure securities
- 1.5. Listed New Zealand & Australian equities.
- 1.6. Listed and unlisted Property.
- 1.7. Listed international equities. This includes, but is not limited to, Developed Markets, Emerging Markets and Small Companies.
- 1.8. Derivative contracts, where the underlying risk relates to foreign currency (including spot and forward foreign exchange contracts) or equity risk.
- 1.9. Units or sub-units of any collective investment vehicle (both managed by Harbour and externally managed) where the underlying assets are principally those listed in 1.1 to 1.8 above. This can include exchange traded products.

## Exposure Limits

| Asset Class  | Benchmark asset allocation (%) | Range (%)          |
|--|--------------------------------|--------------------|
| Cash and cash equivalents                                  | 5%                             | 2.5-30%            |
| Investment grade fixed interest (New Zealand and Global)   | 25%                            | 10-50%             |
| Non-investment grade fixed interest                        | 0%                             | 0-15%              |
| Loans  | 0%                             | 0- 10%             |
| Australasian equities                                      | 30%                            | 0-60%              |
| International equities                                     | 30%                            | 0-60%              |
| Private Equity (including venture capital)                 | 0%                             | 0 – 10%            |
| <i>Total loans and non-investment grade fixed interest</i> | <i>0%</i>                      | <i>Maximum 15%</i> |
| <i>Total equities</i>                                      | <i>70%</i>                     | <i>Maximum 85%</i> |

**Liquidity:** A minimum of 2.5% of the fund is to be held in highly liquid cash and cash equivalents. Additionally, a minimum of 10% of the fund is to be held in investment grade fixed interest.

**Derivatives:** The calculation of duration, currency, credit and equity exposures will include the effective exposure from any derivatives in the Fund.

**Counterparty exposures:** Over-the-counter derivative contracts must be entered with a counterparty with a minimum long-term credit rating of A at Standard & Poor's and a current ISDA agreement must be in place between the counterparty and the Fund or us.

**Leverage:** The effective exposure of equity and corporate credit must not result in the Fund being levered with regards to equity and credit risk.

**Investment in externally managed underlying funds:** Harbour may have up to 75% of the Net Asset Value of the Fund invested in a fund or funds managed by an external manager.

## Currency Management

With the exception of *foreign currency denominated equities*, currency exposure is 100% hedged to NZD. International Equities (excluding Australian Equities) have a neutral foreign currency hedging position of 0% but will be managed within a tactical range of between 0 and 100%. Australian Equities will be managed within a tactical range of between 0 and 100%.

## Harbour Australasian Equity Fund

At the date of this document the Harbour Australasian Equity Fund is authorised to invest directly into the Wholesale Harbour Australasian Equity Fund. As such, the below information reflects the investment guidelines that are applicable to the Wholesale Fund.

### Description of the Fund

The Fund provides actively managed exposure to New Zealand and Australian listed equities. The Fund has a growth-oriented investment approach to generate alpha (return over the benchmark) for investors. The Fund incorporates an environmental, social and governance (ESG) strategy involving integration of Harbour's proprietary Corporate Behaviour Survey and external provider scores into investment decision making, company engagement, voting and zero tolerance exclusions.<sup>1</sup>

### Investment Objective

To achieve a gross return of 5.0% per annum above the benchmark over the long term.

### Benchmark

S&P/NZX50 Index including imputation credits.

### Distribution

This Fund does not pay distributions.

### Investment Style

Harbour believes in a growth orientated active investment management approach to generate out-performance for this Fund. Harbour's investment process seeks to identify companies with strong prospective growth in earnings which are under-appreciated by the market. We combine the talents of Harbour's experienced analysts (who place fundamental ratings and ESG scores on companies) with quantitative analysis of growth and quality

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<sup>1</sup> Exclusions include tobacco, nuclear explosives, cluster munitions, anti-personnel mines, pornography, recreational cannabis and controversial firearms. Further information on screening thresholds and processes are outlined in the exclusions section of our [ESG policy](#) which can be found on the Harbour website.

factors such as Return on Equity. We believe that the combination of company research with consistent screening across the market provides a disciplined approach to investing.

### Benchmark Asset Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change and if we pursue tactical investment opportunities.

| Asset Class               | Benchmark asset allocation (%) | Range (%) |
|---------------------------|--------------------------------|-----------|
| Cash and cash equivalents | 2%                             | 0-10%     |
| Australasian Equities     | 98%                            | 90-100%   |

### Authorised Investments of the Wholesale Australasian Equity Fund

- 1.1. Investment in shares, warrants, rights, options in companies and index products that are:
  - 1.1.1. listed on the NZX (or have been publicly announced that they will be listed on the NZX); or
  - 1.1.2. listed on the ASX (or have been publicly announced that they will be listed on the ASX).
- 1.2. Investments in convertible debt instruments, provided the equity to which they convert satisfies the requirements of Item 1.1 above.
- 1.3. Options and exchange traded futures in respect of the type referred in Item 1.1 above.
- 1.4. Investments in partly-paid shares in respect of the type referred in Item 1.1 above provided that the shares are included or are to be included in the benchmark or that the aggregate amount of the unpaid portion is fully covered by cash or cash equivalents.
- 1.5. Spot and forward foreign exchange contracts.
- 1.6. Cash and cash equivalents.

### Exposure Limits

|  | Minimum percentage of the Net Asset Value of the Portfolio | Maximum percentage of the Net Asset Value of the Portfolio |
|--|--|--|
| New Zealand Equities and Australian Equities plus Net Delta Weighted Exposure to Derivative Securities | 90%  | 100%   |
| Australian Equities  | 0%   | 40%  |
| Net Delta Weighted Exposure to Derivative Securities   | 0%   | 30%  |
| Cash and Cash Equivalents  | 0%   | 10%  |
| Individual company in the Benchmark  | 0%   | Benchmark weight +10%                                      |
| Individual company not in the Benchmark where its market capitalisation is greater than NZ\$500m       | 0%   | 8%   |
| Individual company not in the Benchmark where its market capitalisation is less than NZ\$500m          | 0%   | 3%   |

Harbour does not impose specific sector constraints as tracking error is designed to limit total portfolio risk. The growth orientated investment philosophy can favour stocks in sectors with high return on equity and strong growth potential versus market expectations.

The Harbour Australasian Equity Fund can hold up to 40% in Australian equities. Typically, the Fund would expect to invest about 75% in New Zealand equities and 25% in Australian equities which seeks to both diversify risk and to add to potential returns.

**Underwriting and Sub-underwriting:** Underwriting or sub underwriting of share issues in a company in respect of Item 1.1 above, is permitted up to a maximum exposure of 5% per security; or where the company is not in the Benchmark and where its market capitalisation is less than NZ\$500m, this is limited to a maximum exposure of 3% per security.

Total portfolio underwriting and sub underwriting is to not exceed 10% of the NAV of the Fund. For the avoidance of doubt, the underwriting commitment has to be backed by cash, or securities which can be readily sold to meet the underwriting commitment.

**Prohibitions:** Borrowing is not permitted; leverage is not permitted; short selling is not permitted.

**Liquidity:** Alongside cash holdings the Fund invests in securities listed on the NZX and ASX stock exchanges which are able to be liquidated if required in a reasonable time period.

### Currency Management

We manage to a 0% hedged benchmark, and when hedging is in place it can typically range from 10-90% of Australian dollar exposure. Currency exposure is managed in the derivative market using forwards and currency swaps.

## Harbour Australasian Equity Focus Fund

At the date of this document the Harbour Australasian Equity Focus Fund is authorised to invest directly into the Wholesale Harbour Australasian Equity Focus Fund. As such, the below information reflects the investment guidelines that are applicable to the Wholesale Fund.

### Description of the Fund

The Fund is an actively managed, high conviction portfolio investing principally in listed Australasian equities.

The focus is on delivering strong positive returns through the market cycle by investing in equity positions with no particular attention to an equity benchmark.

The Fund is a research focused equity fund. It may have a higher risk profile than traditional core equity funds. We can actively allocate investments between Australasian listed equities, fixed interest and cash. The Fund may also use derivatives to hedge currency and equity risk.

### Investment Objective

The investment objective of the Fund is to deliver medium to long term capital growth through investing in quality businesses with strong growth prospects.

### Benchmark

The Fund does not follow a particular benchmark. However, the following is the appropriate market index & has been used to calculate risk indicator prior to the Fund's inception: 50% S&P/NZX50 Index and a 50% S&P/ASX200 Index (which is 50% hedged into NZD).

## Distribution

This Fund does not pay distributions.

## Investment Style

An active research driven investment process which principally invests in a focused selection of companies highly rated by Harbour investment analysts and largely consistent with the overweight positions in Harbour's core Australasian Equity Fund. As a result, the Fund invests in equities which portfolio managers have high conviction in.

## Benchmark Asset Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change and if we pursue tactical investment opportunities.

| Asset Class  | Benchmark asset allocation (%) | Range (%) |
|--|--------------------------------|-----------|
| Cash and cash equivalents<br><i>(can include Fixed Income Investment Grade Corporate Bond – NZ or Australia)</i> | 5%                             | 0-35%     |
| Australasian Equities  | 95%                            | 65-100%   |

## Authorised Investments of the Wholesale Harbour Australasian Equity Focus Fund

- 1.1. Investment in shares, warrants, rights, bonus issues, options or securities in such companies that are convertible into ordinary shares, and index products that are:
  - 1.1.1. listed on the NZX (or have been publicly announced that they will be listed on the NZX);
  - 1.1.2. listed on the ASX (or have been publicly announced that they will be listed on the ASX); or
  - 1.1.3. unlisted but we expect the company to have liquidity either through a future listing or market related event. Exposures to unlisted securities are subject to tight exposure limits.
- 1.2. Investments in convertible debt instruments, provided the equity to which they convert satisfies the requirements of Item 1.1 above.
- 1.3. Options and exchange traded futures in respect of the type referred in Item 1.1 above.
- 1.4. Investments in partly-paid shares in respect of the type referred in Item 1.1 above provided that the shares are included or are to be included in the benchmark; or that the aggregate amount of the unpaid portion is fully covered by cash or cash equivalents.
- 1.5. Spot and forward foreign exchange contracts.
- 1.6. Cash and cash equivalents.
- 1.7. On-call cash or bank deposits at a 'registered bank' under section 69 of the Reserve Bank of New Zealand Act 1989 with a minimum long-term credit rating of A+ from Standard & Poor's rating agency.
- 1.8. Debt securities denominated in NZD that have a long-term credit rating of not less than BBB-, or a short-term rating of not less than A-3 from Standard & Poor's rating agency.
- 1.9. Preference shares denominated in NZD and issued under New Zealand or Australian legal jurisdiction with a long-term credit rating of not less than BBB- from Standard & Poor's rating agency.
- 1.10. Securities that qualify as Tier 1 capital for banks registered in New Zealand with a long-term credit rating of not less than BBB- from Standard & Poor's rating agency.
- 1.11. Unrated securities provided that we, in our judgement, determine that the issue would have a rating of not less than BBB- from Standard & Poor's rating agency, if a rating was sought.



- 1.12. Unrated securities that satisfy the criteria above may be held, provided that we deem that the securities would most probably achieve a rating of BBB or higher if the issuer was to gain a rating. This includes debt issued by Local Authorities.
- 1.13. Units or sub-units of any collective investment vehicle managed by Harbour where the underlying assets are principally those listed in 1.1 to 1.12 above.

## Exposure Limits

|   | Minimum percentage of the Net Asset Value of the Portfolio | Maximum percentage of the Net Asset Value of the Portfolio |
|---|--|--|
| Cash and Cash Equivalents, Fixed Income, Investment Grade Corporate Bonds – New Zealand or Australia                | 0%   | 35%  |
| Listed equities listed or about to list on the NZX or ASX   | 65%  | 100%   |
| Unlisted equities - New Zealand or Australian   | 0%   | 4%   |
| Maximum individual equity issuer exposure limits:   |  |  |
| Individual company in the S&P/NZX10 or S&P/ASX100 Benchmark   | 0%   | 15%  |
| Individual company outside the S&P/NZX10 or S&P/ASX100 but where its market capitalisation is greater than NZ\$500m | 0%   | 10%  |
| Individual company not in the S&P/NZX10 or S&P/ASX100 where its market capitalisation is less than NZ\$500m         | 0%   | 8%   |
| Individual unlisted equity – NZ or Australian   | 0%   | 2%   |

**Prohibitions:** Borrowing is not permitted; leverage is not permitted; short selling is not permitted.

**Liquidity:** Alongside cash holdings the Fund invests in securities listed on the NZX and ASX Stock exchanges which are able to be liquidated if required in a reasonable time period.

## Currency Management

We manage to a 50% hedged benchmark, and when hedging is in place it can typically range from 10-90% of Australian dollar exposure. Currency exposure is managed in the derivative market using forwards and currency swaps.

## Harbour T. Rowe Price Global Equity Fund

*(Name changed from T. Rowe Price Global Equity Growth Fund to Harbour T. Rowe Price Global Equity Fund on 1 October 2021)*

Harbour has partnered with Baltimore-based global asset manager T. Rowe Price in bringing a global equity PIE Fund to the New Zealand market. This Fund is currently authorised to hold units in the Australian Unit Trust (AUT) managed by T. Rowe Price Australia Ltd. When the Fund grows to a sufficient size to make it more economical for unit holders, the Fund will directly hold assets managed by T. Rowe Price Australia Ltd (this will be in the form of an Investment Management Agreement between Harbour & T. Rowe Price).

### Investment Objective

The Fund’s objective is 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 recognized exchanges and/or markets throughout the world. The portfolio may include investments in the securities of companies traded, listed or due to be listed, on recognized exchanges and/or markets of developing countries.

### Benchmark

The benchmark is the MSCI All Country World Index (unhedged) in NZD.

### Distribution

This Fund does not pay distributions.

### Investment Style

T. Rowe Price follows a growth orientated active investment management approach to generate outperformance for the Fund. When evaluating a company's prospects T. Rowe Price analysts consider industry trends, the cash flow generation capability of the company, its balance sheet strength, the quality of its management and the attractiveness of its share price relative to its growth profile. As a growth investor, the Portfolio Manager has a natural bias towards emerging market companies. The portfolio manager recognises these companies can exhibit additional risk such as political risk and therefore takes smaller positions in individual companies as well as capping the total exposure to emerging markets at 15% above the benchmark weight.

### Benchmark Asset Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change, and if we pursue tactical investment opportunities.

| Asset Class               | Benchmark asset allocation (%) | Range (%) |
|---------------------------|--------------------------------|-----------|
| Cash and cash equivalents | 2%                             | 0-10%     |
| International Equities    | 97%                            | 80-100%   |
| Australasian Equities     | 0%                             | 0-10%     |

### Authorised Investments of the Australian Unit Trust

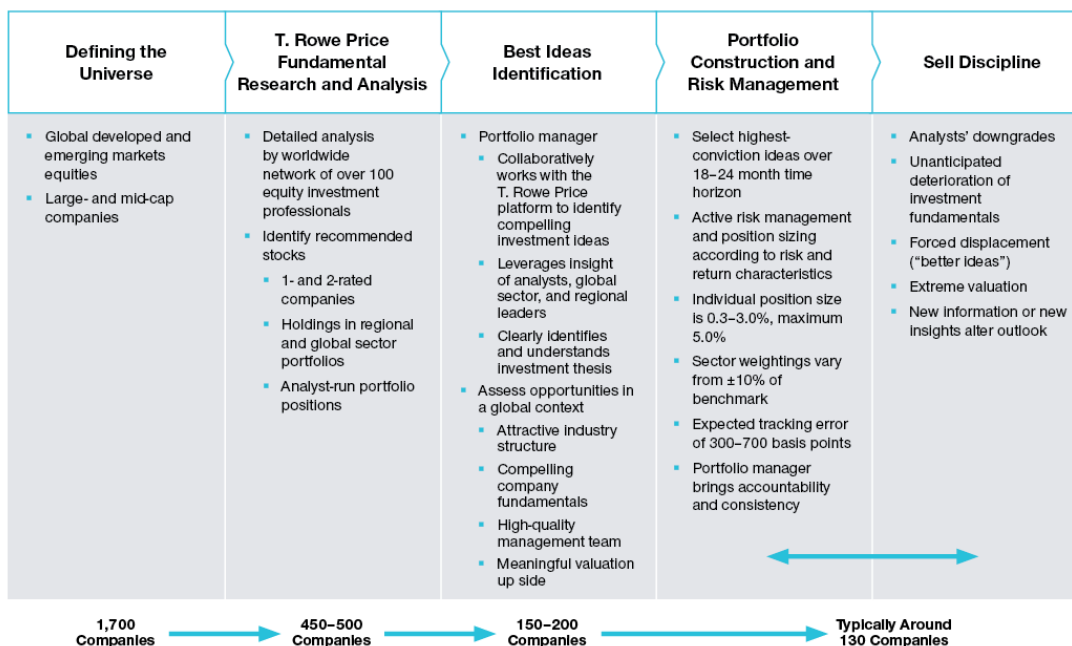
- 1.1. Securities of companies which are traded, listed or due to be listed, on recognized exchanges and/or markets throughout the world.
- 1.2. Securities of companies traded, listed or due to be listed, on recognized exchanges and/or markets of developing countries.

### Investment Process

T. Rowe Price constructs a growth-oriented portfolio consisting of around 150 stocks. In following their growth style, the manager has a natural bias towards emerging market stocks, where typically around 15-25% of the portfolio will be held. Given the broad diversification, it is likely the portfolio will track its benchmark with a standard deviation of relative performance around the index (a tracking error) of 3%-7%.

## INVESTMENT PROCESS SUMMARY

Our research-driven, bottom-up approach is the engine for our investment idea generation



The Fund invests in a broadly-diversified portfolio of global equities, typically comprising around 150 stocks. Exposure limits are constrained by a number of guidelines which include limits to individual stocks, a +/- 10% limit to sector positions relative to the index weights and +/- 10% limit to country positions relative to the index (with the exception of the larger USA market which has a +/- 20% tolerance). In order to ensure investors receive a return that has reference to broader markets, the Fund's performance is expected to have a standard deviation of relative performance around the index (a tracking error) of 3% - 7%. The Fund is typically fully-invested in equities.

The Fund has the same Supervisor, custodian, auditors and investment accountants as the other Harbour Funds.

### Currency Management

The Fund's benchmark currency position is to be fully unhedged. At times T. Rowe Price may actively hedge a small portion of the Fund's currency exposure.

### Harbour T. Rowe Price Global Equity Fund (Hedged)

Harbour has partnered with Baltimore-based global asset manager T. Rowe Price in bringing a global equity PIE Fund to the New Zealand market. This Fund is currently authorised to hold units in the Australian Unit Trust (AUT) managed by T. Rowe Price Australia Ltd. When the Fund grows to a sufficient size to make it more economical for unit holders, the Fund will directly hold assets managed by T. Rowe Price Australia Ltd (this will be in the form of an Investment Management Agreement between Harbour & T. Rowe Price).

### Investment Objective

The Fund's objective is 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 recognized exchanges and/or markets throughout the world. The portfolio may include investments in the securities of companies traded, listed or due to be listed, on recognized exchanges and/or markets of developing countries.

## Benchmark

The benchmark is the MSCI All Country World Index (100% hedged to NZD).

## Distribution

This Fund does not pay distributions.

## Investment Style

T. Rowe Price follows a growth orientated active investment management approach to generate outperformance for the Fund. When evaluating a company's prospects T. Rowe Price analysts consider industry trends, the cash flow generation capability of the company, its balance sheet strength, the quality of its management and the attractiveness of its share price relative to its growth profile. As a growth investor, the Portfolio Manager has a natural bias towards emerging market companies. The portfolio manager recognises these companies can exhibit additional risk such as political risk and therefore takes smaller positions in individual companies as well as capping the total exposure to emerging markets at 15% above the benchmark weight.

## Benchmark Asset Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change, and if we pursue tactical investment opportunities.

| Asset Class               | Benchmark asset allocation (%) | Range (%) |
|---------------------------|--------------------------------|-----------|
| Cash and cash equivalents | 5%                             | 0-10%     |
| International Equities    | 95%                            | 80-100%   |
| Australasian Equities     | 0%                             | 0-10%     |

## Authorised Investments of the Australian Unit Trust

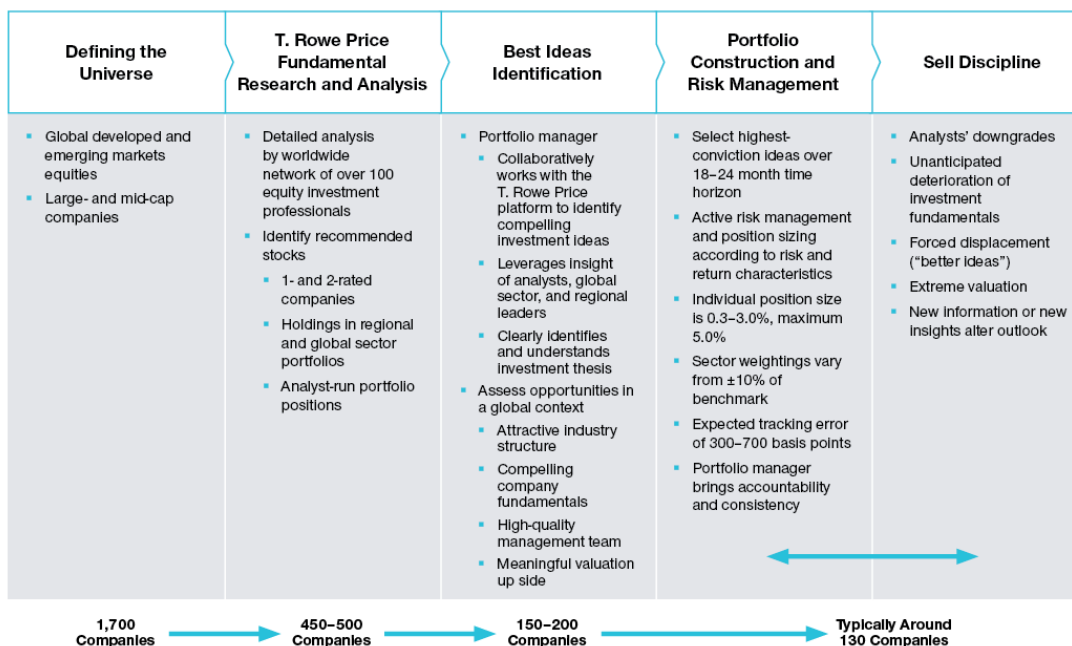
- 1.1. Securities of companies which are traded, listed or due to be listed, on recognized exchanges and/or markets throughout the world.
- 1.2. Securities of companies traded, listed or due to be listed, on recognized exchanges and/or markets of developing countries.
- 1.3. Derivative contracts, where the underlying risk relates to foreign currency (including spot and forward foreign exchange contracts).

## Investment Process

T. Rowe Price constructs a growth-oriented portfolio consisting of around 150 stocks. In following their growth style, the manager has a natural bias towards emerging market stocks, where typically around 15-25% of the portfolio will be held. Given the broad diversification, it is likely the portfolio will track its benchmark with a standard deviation of relative performance around the index (a tracking error) of 3%-7%.

## INVESTMENT PROCESS SUMMARY

Our research-driven, bottom-up approach is the engine for our investment idea generation



The Fund invests in a broadly-diversified portfolio of global equities, typically comprising around 150 stocks. Exposure limits are constrained by a number of guidelines which include limits to individual stocks, a +/- 10% limit to sector positions relative to the index weights and +/- 10% limit to country positions relative to the index (with the exception of the larger USA market which has a +/- 20% tolerance). In order to ensure investors receive a return that has reference to broader markets, the Fund's performance is expected to have a standard deviation of relative performance around the index (a tracking error) of 3% - 7%. The Fund is typically fully-invested in equities.

The Fund has the same Supervisor, custodian, auditors and investment accountants as the other Harbour Funds.

### Currency Management

The Fund's benchmark currency position is to be fully hedged to NZ dollars. Currency hedging is undertaken by T. Rowe Price and/or Harbour. The currency hedging is to be managed between an operational 95% to 105% at all times.

## 4. Investment management policies

In order to meet the investment objectives of the Harbour Investment Funds, Harbour follow key investment management policies. Some of these are outlined below.

### Currency Hedging Policy

The objective of currency hedging is to reduce, eliminate or change the effects of foreign exchange movements on assets not held in NZD. Harbour implements a disciplined tactical approach to currency hedging involving a fundamental scoring framework including an econometric model that draws on valuation, technical and relative economic cycle factors to provide input for our currency strategy. Based on Harbour's internal fundamental currency analysis, hedging provides an opportunity to enhance returns and reduce portfolio volatility.

Please refer to Currency Management under each of the Harbour Investment Funds as each Fund has its own currency hedging framework.

## Operational Risk Policy

Operational risk consists of failures in operational processes or the systems that support them. This includes errors and omissions, system breakdown, natural disasters, breach of policies and procedures, legal or regulatory failures, breach of confidentiality and deliberate fraudulent activity both internal and external.

We have an Operational Risk Policy, which provides awareness of what constitutes operational risk, possible risk indicators and the importance of adherence to control policies, procedures and standards to ensure that Harbour operates in a sound control environment. The risk committee meets quarterly to review Harbour's operational risk policy.

## Derivatives Policy

The use of derivatives is governed by the Harbour Derivative Risk Statement (DRS). The DRS summarises the policies in place covering the use of derivatives, controls on their use, and the processes for assessing compliance with those controls. These policies and controls are intended to ensure proper use of derivatives. Derivatives are not to be considered in isolation, but as part of the investment operations of the responsible party as a whole and the investment strategy being implemented.

The DRS will be reviewed by management regularly and understood by all persons responsible for managing, monitoring or implementing the investment processes of Harbour as the Investment Manager.

## Pricing/Valuation Policies

Harbour has employed the services of TEL to provide specialist account administration for third party mandates, and custody and administration services for the Harbour Wholesale Funds, and the Harbour Investment Funds.

Harbour outsources the valuation of its scheme assets to TEL. TEL values the scheme assets as part of its Unit Pricing and Investment Accounting service to Harbour as Fund Manager. Using their own pricing sources, TEL complete security pricing and asset valuations independently of Harbour. TEL has a documented security pricing and asset valuation methodology.

TEL provides a six-monthly Internal Controls Report, which includes an Independent Assurance Report in accordance with International Standard on Assurance Engagements (New Zealand) 3402: "Reports on Controls at a Service Organisation". This report outlines the control objectives for the investment management, report keeping and administration of client's assets by TEL, together with the specific policies and procedures established to meet each of these objectives.

A copy of Harbours Pricing and Valuation policy can be found on the Disclose website.

## ESG Considerations

As part of our investment philosophy and stewardship process, Harbour recognises there are many factors that influence our analysis, and that environmental, social and governance (ESG) considerations have grown in significance as potential value drivers. In particular, Climate change has been a key area of focus and has been embedded in our investment process through our extensive research programme.

We believe that ESG factors can be a useful barometer of the quality of a company; Companies who manage ESG issues well are generally more likely to create long term shareholder value, with a reduced risk profile, compared with those companies who do not. Consequently, Harbour has integrated ESG factors directly into portfolio analysis. ESG factors are assessed in conjunction with existing comprehensive financial analysis. Our primary ESG tool is our proprietary Corporate Behaviour Survey, which we augment with external ESG specialists and broker research.

Active ownership is another important part of our approach to ESG considerations that involves constructively engaging with company boards and management to promote better behaviour and improve ESG outcomes over time. It also involves exercising our influence in shareholder meetings of these companies which we do by

evaluating each proposal, augmented by proxy advisor research and then casting our vote by proxy on all resolutions.

Before consideration of companies in our integration approach, we have set a baseline standard of responsible behaviour based on business activity. Subsequently, all internally managed funds do not invest in companies that to our knowledge derive any revenue from:

- The manufacture of tobacco
- The manufacture or testing of nuclear explosive devices (NEDs)
- The manufacture or sale of cluster munitions
- The manufacture or sale of anti-personnel mines
- The manufacture or sale of recreational cannabis
- The production of pornography
- The manufacture or sale of civilian automatic and semi-automatic firearms, magazines or parts

For more information on Harbour's ESG approach, please refer to our website [Responsible Investing » Harbour Asset Management](#)"

### Harbour External Manager Selection and Monitoring Policy

Harbour's multi-asset client portfolios and funds, including the Harbour Income and Harbour Active Growth Funds, may allocate to external investment managers.

Harbour follow the External Manager Selection and Monitoring Policy to confirm the process behind the selection and ongoing monitoring of external investment managers by Harbour. See section 8 for more information on external manager selection.

### Other Relevant Policies

The following policy is also relevant to the management of the Harbour Investment Funds and can be found on Disclose in the other material information document (OMI).

- Conflicts of interest Policy

## 5. Limit Breaks

The investment teams monitor compliance with the SIPO, specific investment parameters and benchmark asset allocation on a daily basis. All Fund SIPO limits are monitored at both pre-trade, post trade and end of day monitoring times using rules-based checking software.

This is done via both a FrontOffice system and the Bloomberg Asset Investment Manager (AIM) system. The Compliance Manager (CM) is a specialist function within the Bloomberg AIM package and sits in an independent environment within Bloomberg. All SIPO rules are coded and activated to provide compliance testing of all our trading and holdings. Investment parameters are coded and locked in the AIM system by the Compliance team (Compliance). Any potential compliance breaches are flagged immediately, and the AIM system will not allow potential trades to progress. Both Compliance and the Managing Director receive immediate notification of both active (if any) and passive breaches. If the position requires amendment, the portfolio manager will trade to remedy the position.

Compliance also monitors compliance with the SIPO and specific exposure limit rules for each fund. Harbour's Compliance Manager provides formal compliance sign off for each of the funds at the end of each month and ensures there is independent monitoring from the investment teams who execute the trades. Any proposed changes to the SIPO rules coded in the AIM Compliance Manager requires Compliance's approval.

Any limit breaks, errors or breaches are reported immediately to the Compliance Manager, Harbour Board and the Audit and Risk Committee. Material limit breaks are reported to all clients as well. Judgement for materiality

of the limit break resides with the Compliance Manager who will consider the cause of the limit break, the economic impact on the investor and how often the limit break has occurred.

### Limit Break Reporting

Under section 167(1) of the FMCA, a “limit break” is “a material breach of any limits in the SIPO”.

All limit breaks are reported to the Supervisor at the end of each quarter.

## 6. Investment performance monitoring

Performance for the Funds is calculated (in the unit price) each business day by Harbour’s custodians and administration manager, TEL. TEL distribute a daily performance report to key Harbour investment personnel. The specialised performance team at TEL monitor the performance of each Fund and investigates any variances.

In addition, Fund performance is also monitored on a daily basis by the management team and reported to the Board at each meeting. This daily performance monitoring is complemented by daily attribution analysis provided by the Bloomberg AIM system as well as the numbers provided by TEL. The Portfolio Manager monitors this each day. Unusual performance (positive or negative) movement is not expected given the investment process followed. If there is an unusual performance return for the day, the Portfolio Manager has the ability to drill down to a security specific level to assist with the performance analysis and to identify if corrective action is required.

Performance is monitored on over a monthly, quarterly, six-monthly, annually as well as annualised two, three and five year periods (where applicable). TEL provides Harbour with the month end performance numbers. Performance is measured on an absolute return basis and is calculated both net of fees & expenses and net of fees, expenses and tax.

Performance also is measured against the Fund’s benchmark. For the Funds holding units in the Wholesale Funds, this is using the gross performance return against the gross benchmark return.

Performance for the Funds will be published monthly on the Harbour website ([www.harbourasset.co.nz](http://www.harbourasset.co.nz)) and quarterly in the fund update.

## 7. Compliance with and review of the SIPO

Harbour management and the Harbour Board will review this SIPO annually (or more frequently if required).

Harbour may propose amendments to the SIPO in accordance with the Trust Deed and the FMC Act. Harbour would consult with the Harbour Board and Supervisor (Guardian Trust) regarding the proposed amendments. If approved by both, then Harbour may amend the SIPO. The Investment Manager must give notice to investors if the changes are deemed material by our legal advisors and the Supervisor.

Compliance with the SIPO is monitored continuously by Bloomberg AIM.

The most current version of the SIPO is available on Disclose and on our website ([www.harbourasset.co.nz](http://www.harbourasset.co.nz)).

## 8. Investment Managers

Harbour is the manager and investment manager for all of the Harbour Funds. T. Rowe Price has been appointed in turn by Harbour as external investment manager of the Harbour T. Rowe Price Global Equity Fund and Harbour T. Rowe Price Global Equity Fund (Hedged). However, from time to time, and if within a Fund's investment policy and authorised investments, Harbour may invest a Fund in an underlying fund which is externally managed. For example, the Harbour Income Fund can have up to 30% of the Net Asset Value of the



Fund invested in a fund or funds managed by an external manager. The Harbour Active Growth Fund can have up to 75% of the Net Asset Value of the Fund invested in a fund or funds managed by an external manager.

### **External Investment Manager Selection**

Harbour chooses to utilise external investment managers to expose our investors to areas of the market where we believe it is beneficial to have an allocation, but where we do not have the expertise to manage the funds directly.

In selecting a suitable external investment manager, Harbour utilises both quantitative and qualitative inputs to assess a manager's capability. Once their capability is assessed we then determine whether they are suitable for inclusion within the Fund in question. An "external manager selection & monitoring checklist" is completed for each external manager selected.

Harbour's Asset Allocation Committee monitors the investment performance of external investment managers, which includes review of the performance objectives and portfolio activity of the respective funds.

Here is an example of Harbour's external investment manager selection process. After a comprehensive due diligence process, Harbour selected T. Rowe Price to undertake portfolio management of the Harbour T. Rowe Price Global Equity Fund and the Harbour T. Rowe Price Global Equity Fund (Hedged) based on Harbour's assessment of T. Rowe Price's thorough investment process, extensive research capabilities and skilled and collaborative team.

As the Fund's issuer, Harbour reviews T. Rowe Price's suitability as part of the asset allocation committee review.