

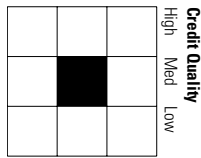
Harbour NZ Core Fixed Interest

23777

Morningstar Analyst Rating
Bronze

Morningstar Category NZ Bonds	Category Index S&P/NZX NZ Composite Invest Grade NZD	Total Assets 156 Mil NZD	Inception Date 20/05/11	Domicile/Currency NZL/NZD	Morningstar Rating ★★★
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Fixed Income Style



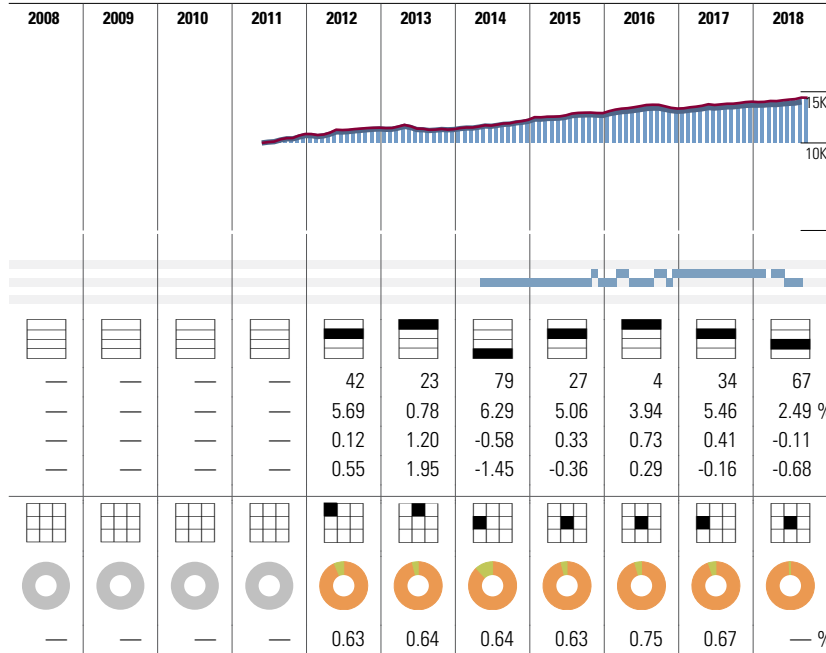
Interest Rate Sensitivity

Style Box Factors

Credit Quality	Fund
Average Credit Quality	A
Investment Grade %	98.7
Below Invest Grade %	0.0
Interest Rate Sensitivity	
Avg Effective Duration	3.9
Avg Modified Duration	3.9
Avg Effective Maturity	4.1

People

Christian Hawkesby	05/11
Mark Brown	05/11
Total Named Managers	2



Performance 30/09/18

Growth of 10,000 Annualized NZD	Value NZD	Ret %
Fund	14,091	4.79
Category	—	—
Index	14,307	5.00

Full Manager Change

Morningstar Rating

★★★★★

Quartile Rank in Category

Percentile Rank in Category

Total Return NZD

+/- Category

+/- Index

Process

Fixed Income Style Box

Asset Allocation (Long Positions)

- Equity
- Fixed Interest
- Cash
- Other

Price Expense Ratio (MER)

A lot to like here.

Analyst View

Chris Douglas
Director

Morningstar Analyst Rating **Bronze**

Morningstar Pillars

Process Page 2-3	Positive
Performance Page 4	Neutral
People Page 5	Positive
Parent Page 6	Positive
Price Page 7	Positive

Role in Portfolio: Core

Morningstar Analyst Rating

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum



May 11, 2018 | The strong and stable investment team at Harbour NZ Core Fixed Interest and the well-defined process continue to provide the platform for future success.

Mark Brown is the portfolio manager responsible for portfolio strategy and implementation. He has decades of local fixed-interest experience, which includes 15 years leading the fixed income business at AllianceBernstein, which gives us a lot of confidence he can do the job effectively. Meanwhile, Harbour's head of fixed income, Christian Hawkesby, brings critical economic expertise, including wisdom gained over nine years with the Bank of England. Experience is thinner across the rest of the team, but Brown and Hawkesby are adequately supported on credit analysis and trade execution.

They've built a robust process marked by useful differentiation. As with many bond managers, Harbour tries to add value through interest-rate positioning and shifts in the allocation to government, local authority, and corporate bonds. It starts with analysis of macroeconomic condi-

tions and bond valuations to forecast returns across maturity dates and subsectors over the near to medium-term. But Harbour differentiates by pulling some other levers, including plays on the value of the local market relative to U.S. and Australian rates. The fund's benchmark, an even split of the S&P/NZX Corporate A-Grade Bond Index and the S&P/NZX NZ Government Bond Index, also sets the fund apart. It means the portfolio has structurally lower duration than most rivals and more corporate exposure, so it's likely to lead in rising yield markets but lag when yields fall.

Brown is willing to take meaningful but calculated risks. The portfolio's duration positioning hasn't always been the right call, but the relative value allocation has been particularly additive, and the vehicle's record leads most peers' over the five years to 31 March 2018. With a management fee of 0.60%, that's active management worth paying for. Harbour NZ Core offers investors a well-structured domestic fixed income offering, which we believe is very appealing.

Harbour NZ Core Fixed Interest

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Process: Approach

Morningstar Category
NZ Bonds

Category Index
S&P/NZX NZ Composite
Invest Grade NZD

Index Proxy
—

A robust and differentiated process.

Process Pillar + Positive

May 11, 2018 | Harbour has a robust and differentiated process that should help this strategy meet investors' needs for local bond exposure. Investing in a mix of government and high-quality corporate bonds, this strategy seeks to outperform a benchmark that is evenly split between the S&P/ANZ NZ Government Bond Index and the

S&P/NZX Corporate A-Grade Bond Index by 1% per year over rolling three-year periods. That split benchmark sets it apart from peers because it means the strategy has structurally lower interest-rate duration.

The research and portfolio construction process is primarily top-down. The team examines a range of economic factors to assess structural and cyclical economic conditions. It analyses a wide range of market indicators to develop a short- and medium-term outlook for bond yields and credit spreads, in New Zealand and in

other key global markets. Portfolio managers Mark Brown and Christian Hawkesby seek to add value through duration and yield-curve positioning, allocation to credit, and relative value trades versus global yields.

Harbour keeps a keen eye on liquidity and transaction costs. The portfolio is primarily composed of cash bonds, but the team will use derivatives to execute positions when appropriate. It also uses a broking panel to ensure that parent company First New Zealand Capital isn't favoured.

Style Surveyed 31/08/18

Fixed Income Style Box

		History	Style	Bonds %
		2018		99.1
		2017		94.9
		2016		95.4
		2015		95.9
		2014		88.0

Bonds % is based on portfolio data.

Style Box Factors

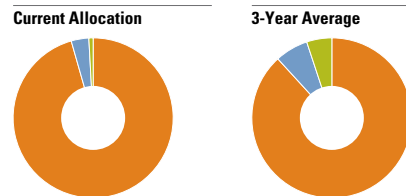
Credit Quality	Fund	3-Yr Avg	Category	Proxy
Average Credit Quality	A	A	A	—
Investment Grade %	98.7	98.2	99.0	—
Below Invest Grade %	0.0	0.0	0.0	—

Interest Rate Sensitivity	Fund	3-Yr Avg	Category	Proxy
Avg Effective Duration	3.9	3.8	3.1	—
Avg Modified Duration	3.9	3.8	3.1	—
Avg Effective Maturity	4.1	4.8	3.6	—

Income Surveyed 31/08/18

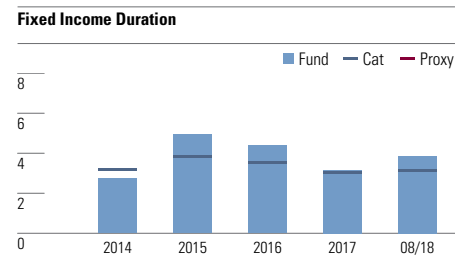
	Fund	3-Yr Avg	Category	Proxy
Average Coupon	3.4	2.2	4.1	—

Asset Allocation (Net Positions) 31/08/18



Assets %	Fund	3-Yr Avg	Category	Proxy
Australasian Equity	0.0	0.0	0.0	0.0
International Equity	0.0	0.0	0.0	0.0
New Zealand Fixed Income	95.6	88.2	0.0	0.0
International Fixed Income	3.6	6.7	0.0	0.0
Cash	0.9	5.1	0.0	0.0
Other	0.0	0.0	0.0	0.0

Duration Surveyed 31/08/18



Year	Fund	Category	Proxy
2014	2.73	3.11	—
2015	4.94	3.76	—
2016	4.38	3.47	—
2017	3.17	2.96	—
08/18	3.86	3.08	—

Harbour NZ Core Fixed Interest

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Process: Portfolio

Morningstar Category
NZ Bonds

Category Index
S&P/NZX NZ Composite
Invest Grade NZD

Index Proxy
—

Different enough to stand out but plays its role well.

Process Pillar + Positive

May 11, 2018 | Like its peers, Harbour NZ Core Fixed Interest provides access to a well-diversified group of fixed-income securities from across the local bond market, including government, local authority, and corporate issues. Relative to those peers, though, this portfolio is likely to have a bit more exposure to corporate bonds (usually in

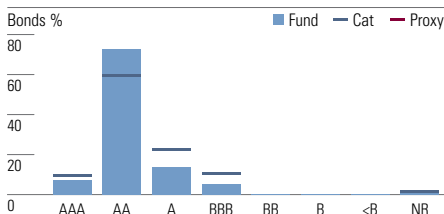
the 40%-60% range) and a bit lower interest-rate duration (2.5-4.0 years, typically). That's because its benchmark is an even split of the S&P/NZX NZ Government Bond Index and the S&P/NZX Corporate A-Grade Index, while many peers adhere fully to the former.

Despite that difference, the strategy can be an investor's primary fixed-interest allocation. The portfolio exhibits minimal credit risk, with average credit quality at the AA or A level, and it can hold a 0% allocation to corporates if the managers are worried about defaults. Plus, it has

enough structural duration to effectively diversify equity risk. The managers can vary duration by plus/minus 1.5 years relative to the split index.

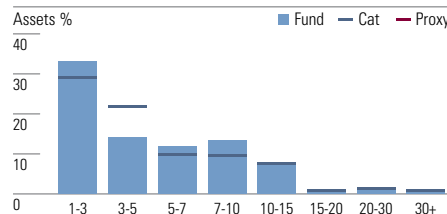
The portfolio's ability to benefit from the team's view on global yields also differentiates it. It can invest up to 20% in Australian corporates and up to 20% in futures that give exposure to U.S. and Australian rates (all foreign-currency exposures are hedged). Such trades are designed to profit from relative value opportunities.

Credit Quality Surveyed 31/08/18



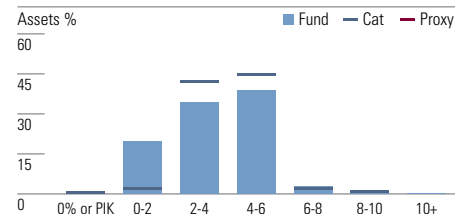
Credit Quality	Fund	3-Yr Avg	Category	Proxy
AAA	7.3	7.2	8.8	—
AA	72.9	72.6	58.7	—
A	13.5	13.5	21.8	—
BBB	5.0	5.0	9.6	—
BB	0.0	0.0	0.0	—
B	0.0	0.0	0.0	—
Below B	0.0	0.0	0.0	—
Not Rated	1.3	1.8	1.0	—

Maturity Schedule 31/08/18



Maturity (Years)	Fund	3-Yr Avg	Category	Proxy
1 to 3	33.2	—	28.9	—
3 to 5	14.1	—	21.5	—
5 to 7	11.9	—	9.4	—
7 to 10	13.3	—	9.4	—
10 to 15	7.5	—	7.3	—
15 to 20	1.0	—	0.6	—
20 to 30	1.7	—	0.9	—
Over 30	0.8	—	0.4	—

Coupon Range 31/08/18



Coupon Range	Fund	3-Yr Avg	Category	Proxy
0% or Paid In Kind	0.0	—	0.2	—
0 to 2	19.5	—	1.5	—
2 to 4	34.4	—	41.7	—
4 to 6	38.9	—	44.1	—
6 to 8	2.7	—	1.6	—
8 to 10	0.2	—	0.3	—
More than 10	0.0	—	0.0	—

Portfolio Holdings 31/08/18

Bond Holdings	Equity Holdings	Other Holdings	Assets in Top 10 Holdings	Turnover Ratio (Reported)
163	0	15	20%	415%

Top 10 Fixed Income Holdings	Country	Currency	Assets %	Super Sector	Primary Sector	Secondary Sector
New Zealand (Government Of) 2%	NZL	NZD	10.91	Government	Government	Inflation Protected
New Zealand (Government Of) 3%	NZL	NZD	7.55	Government	Government	Treasury
New Zealand (Government Of) 6%	NZL	NZD	6.60	Government	Government	Treasury
New Zealand (Government Of) 3%	NZL	NZD	4.69	Government	Government	Treasury
New Zealand Local Government Funding Agency Ltd 2.75%	NZL	NZD	3.03	Government	Government Related	Agency/Quasi Agency
New Zealand (Government Of) 5.5%	NZL	NZD	2.80	Government	Government	Treasury
New Zealand Local Government Funding Agency Ltd 3.5%	NZL	NZD	1.47	Government	Government Related	Agency/Quasi Agency
Fonterra Co-operative Group Limited 4.33%	NZL	NZD	1.47	Corporate	Corporate Bond	Consumer Defensive
New Zealand (Government Of) 2.5%	NZL	NZD	1.41	Government	Government	Inflation Protected
New Zealand (Government Of) 3%	NZL	NZD	1.37	Government	Government	Inflation Protected

Harbour NZ Core Fixed Interest

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Performance

Morningstar Category
NZ Bonds

Category Index
S&P/NZX NZ Composite
Invest Grade NZD

Doing pretty well.

Performance Pillar ● Neutral

May 11, 2018 | This strategy has done pretty well for investors. It launched in May 2011 but wasn't to a meaningful scale until September of that year. From October 2011 to 31 March 2018 the strategy has incrementally beaten its benchmark (a 50/50 split of the S&P/NZX Government Bond Index and the S&P/NZX Corporate A-Grade Bond

Index) with a 4.7% annualised net of fee gain. This is a fine result, and has ensured the team have led category peers during a very challenging period in fixed markets, one marked by unprecedented monetary policy. That peer-relative performance is also noteworthy considering that the strategy's benchmark causes it to have structurally lower interest-rate duration than most peers in a period when yields have broadly fallen.

Performance early on was solid. Yields were volatile during those years, but they fell overall while the team was broadly expecting

them to move higher. Returns over 2015-17 has been more than reasonable, with a very strong showing in 2016 elevating this fund to the top of its category. Results in the first quarter of 2018 were solid, with the structural bias to credit providing some protection.

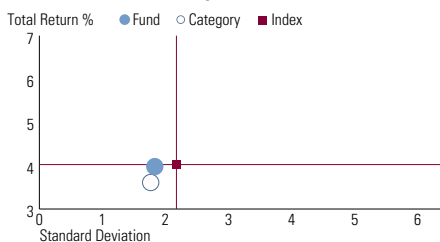
Duration management has been a bit of a headwind, but the credit allocation and relative value trades have been steady contributors. Perhaps more important, the strategy has continued to prove it can be the total portfolio diversifier it should be.

Morningstar Rating and Risk 30/09/18

Period	Total Ret %	Morningstar Ret vs Cat	Morningstar Risk vs Cat	Morningstar Rating
3 Years	3.98	Above Avg	Avg	★★★★★
5 Years	4.76	Avg	Avg	★★★
10 Years	—	—	—	—
Overall Morningstar Rating				★★★

Risk Analysis 30/09/18

3-Year Return and Risk Analysis



3-Year Risk Measures

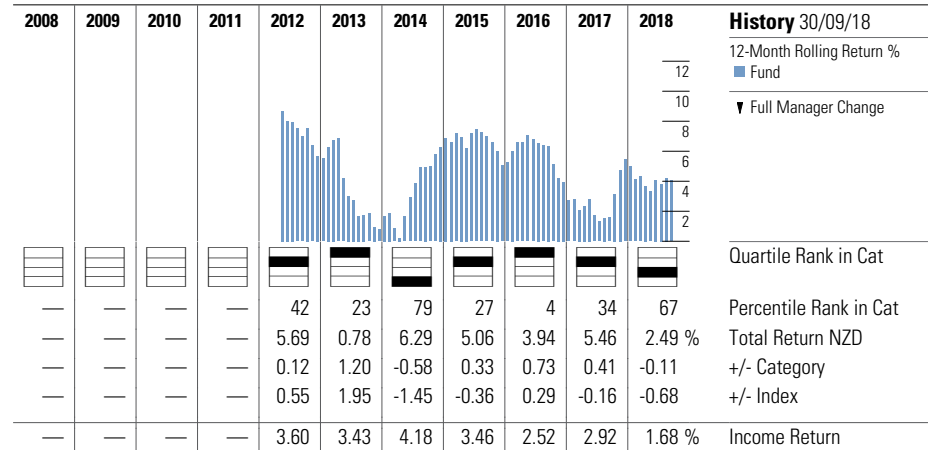
	Fund	Category	Index
Standard Deviation	1.83	1.77	2.17
Sharpe Ratio	1.11	0.99	—
R-Squared	92.91	84.93	—
Beta	0.81	0.76	—
Alpha	0.34	0.01	—

Max Drawdown 01/06/11 to 30/09/18

	Fund	Category	Index
Max Drawdown (%)	-2.26	—	-3.83
Peak Date	05/13	—	05/13
Valley Date	08/13	—	08/13
Max Drawdown (Months)	4	—	4

Upside/Downside 01/06/11 to 30/09/18

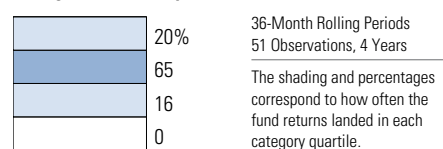
	Fund	Category	Index
Upside Capture Ratio	87.42	—	100.00
Downside Capture Ratio	59.98	—	100.00



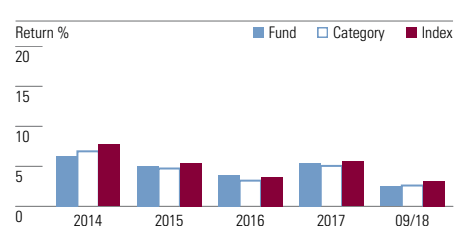
Returns 30/09/18

	Total Ret %	Investor Ret %	% Rank in Cat	Cat Ret %	Index Ret %
1 Year	4.06	4.06	67	4.03	4.84
3 Years	3.98	3.80	12	3.61	4.03
5 Years	4.76	4.39	46	4.61	5.18
10 Years	—	—	—	5.12	5.80
Tenure 05/11	4.76	—	—	—	4.99
Inception 05/11	4.76	—	—	—	4.99

Rolling Return Summary



Calendar Year Returns



Year	Fund %	Category %	Index %
2014	6.29	6.87	7.74
2015	5.06	4.73	5.42
2016	3.94	3.21	3.65
2017	5.46	5.05	5.62
09/18	2.49	2.60	3.17

Harbour NZ Core Fixed Interest

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People

Morningstar Category
NZ Bonds

Category Index
S&P/NZX NZ Composite
Invest Grade NZD

Complementary backgrounds and cultural commitment.

People Pillar + Positive

May 11, 2018 | Christian Hawkesby is Harbour's head of fixed income, a role he has held since joining in 2011. He brings an impressive resume of economics experience, including nine years at senior positions with the Bank of England and is a key driver of the economic framework that underpins the process. In recognition of his influence

and the growth of the fixed income business, Hawkesby's also been taking on more of a leadership role on the business side at Harbour. Meanwhile, Mark Brown is the lead portfolio manager. He joined in 2010 and has decades of experience managing fixed income in the New Zealand market, including 15 years leading the fixed-income business at AllianceBernstein. We appreciate the complementary backgrounds of Brown and Hawkesby, their extensive experience, and cultural commitment.

The firm has invested into its team and

has a good balance of resources and key skills. Analyst Simon Pannett, leads credit analysis of issuers within the fixed interest and income funds. His background is in multiasset investing, but he has been working in the fixed-income team since joining Harbour in mid-2013. The team can draw on others within the wider business, like operations analyst Cheryl Morales who joined the group in 2015. She handles trade processing, client reporting, and the like, which frees up time for Brown and Hawkesby to focus on portfolio management.

Management Team

Number of Managers	Longest Tenure
2	7.42 Years

Advisor
Harbour Asset Management Limited

Subadvisor (0 of 0)

— — to Present

Years of Experience	Current Funds Managed	Fund AUM
0	0	— Mil NZD

Largest Funds Managed	Tenure Dates	Role	Net Assets	Portfolio	Tenure	Index Ret %
			Mil NZD	Turnover %	Ret %	Ret %

Harbour NZ Core Fixed Interest

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Morningstar Analyst Rating
 **Bronze**

Parent

Morningstar Category
 NZ Bonds

Category Index
 S&P/NZX NZ Composite
 Invest Grade NZD

A strong and steady steward.

Parent Pillar

 Positive

Jan 30, 2018 | Harbour Asset Management is a boutique equities and fixed-interest investment house that has evolved from Alliance Bernstein (AB). As at 31 Dec 2017, the shop managed \$3.9 billion. The shop was officially set up in 2010 as an equities house following the dissolution of AB's NZ business, with FNZC funding the initial

establishment costs. Fixed interest capability was added in 2011, which was a sensible and measured roll-out. FNZC still own 77% of the business, though, we expect this to be diluted in the future, as staff continue to buy into new shares offered as part of the compensation package. An independent board promotes separation between the two entities. We are attracted by the alignment of interests between the investments team and unitholders through significant investment in the funds, while a long-term equity scheme promotes stability within the team. Investment team mem-





bers are remunerated based on qualitative measures and their stock picks, but we would prefer greater consideration given to long-term performance of the funds. Nonetheless, the structure is appropriate and part of the cash-bonus goes into the funds – this is industry best practice. Harbour sets the standard in the local industry for transparency, disclosure and investor engagement. In our view, Harbour are one of the strongest stewards of investor money in NZ.

Fund Family Details

Largest Funds	Category Name	Net Assets Mil NZD	Morningstar Rating Overall	Return % 3-Year	Rank in Cat % 3-Year	Return % 5-Year	Rank in Cat % 5-Year	Fee Level
Harbour NZ Corporate Bond	NZ Bonds	365.4	★★★	3.73	35	4.64	59	—
Harbour Australasian Equity	Equity Region Australasia	262.7	★★★★	21.26	5	15.67	16	—
Harbour NZ Equity Advanced Beta Fund	Equity Region NZ	163.3	★★	17.23	84	—	—	—
Harbour NZ Core Fixed Interest	NZ Bonds	156.3	★★★★	3.98	12	4.76	46	—
Harbour Income	Multisector - Moderate	80.5	—	—	—	—	—	—

Best Performing Funds	Category Name	Net Assets Mil NZD	Morningstar Rating Overall	Return % 3-Year	Rank in Cat % 3-Year	Return % 5-Year	Rank in Cat % 5-Year	Fee Level
Harbour Australasian Equity Focus Fund	Equity Region Australasia	21.9	★★★★★	21.81	1	—	—	—
Harbour Australasian Equity	Equity Region Australasia	262.7	★★★★	21.26	5	15.67	16	—
Harbour NZ Core Fixed Interest	NZ Bonds	156.3	★★★★	3.98	12	4.76	46	—
Harbour NZ Corporate Bond	NZ Bonds	365.4	★★★	3.73	35	4.64	59	—
Harbour NZ Equity Advanced Beta Fund	Equity Region NZ	163.3	★★	17.23	84	—	—	—

Worst Performing Funds	Category Name	Net Assets Mil NZD	Morningstar Rating Overall	Return % 3-Year	Rank in Cat % 3-Year	Return % 5-Year	Rank in Cat % 5-Year	Fee Level
Harbour Australasian Equity Income	Equity Region Australasia	37.0	★★	9.32	100	11.02	69	—
Harbour NZ Equity Advanced Beta Fund	Equity Region NZ	163.3	★★	17.23	84	—	—	—
Harbour NZ Corporate Bond	NZ Bonds	365.4	★★★	3.73	35	4.64	59	—
Harbour NZ Core Fixed Interest	NZ Bonds	156.3	★★★★	3.98	12	4.76	46	—
Harbour Australasian Equity	Equity Region Australasia	262.7	★★★★	21.26	5	15.67	16	—

Top Analyst Rated Funds	Category Name	Net Assets Mil NZD	Morningstar Analyst Rating	Return % 3-Year	Rank in Cat % 3-Year	Return % 5-Year	Rank in Cat % 5-Year	Fee Level
Harbour Australasian Equity	Equity Region Australasia	262.7	 Gold	21.26	5	15.67	16	—
Harbour NZ Corporate Bond	NZ Bonds	365.4	 Bronze	3.73	35	4.64	59	—
Harbour NZ Core Fixed Interest	NZ Bonds	156.3	 Bronze	3.98	12	4.76	46	—
Harbour Australasian Equity Income	Equity Region Australasia	37.0	 Bronze	9.32	100	11.02	69	—

Most Recent Fund Launches	Category Name	Net Assets Mil NZD	Inception Date	Total Return % Since Inception	MER	Fee Level
Harbour Income	Multisector - Moderate	80.5	2015-10-21	4.93	0.75	—
Harbour NZ Equity Advanced Beta Fund	Equity Region NZ	163.3	2014-12-03	14.14	0.55	—
Harbour Australasian Equity Focus Fund	Equity Region Australasia	21.9	2014-03-05	15.52	1.33	—
Harbour Australasian Equity Income	Equity Region Australasia	37.0	2011-10-03	13.50	1.11	—
Harbour NZ Core Fixed Interest	NZ Bonds	156.3	2011-05-20	4.76	0.67	—

Harbour NZ Core Fixed Interest

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Price

Morningstar Category
NZ Bonds

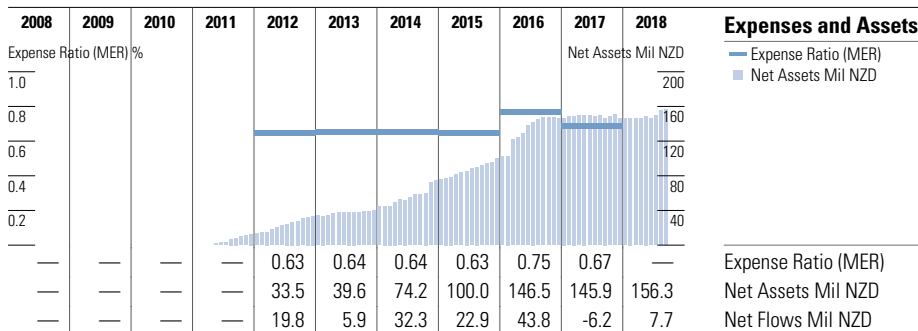
Category Index
S&P/NZX NZ Composite
Invest Grade NZD

Competitively priced.

Price Pillar

+ Positive

May 11, 2018 | Harbour New Zealand Core Fixed Interest has an annual management of 0.60%, which is fairly attractive relative to peers. Its total expense ratio of 0.67% for the financial year ended 31 March 2017 is both reasonable and competitive.



Expenses and Assets

Expense Ratio (MER)
Net Assets Mil NZD

Expense Ratio (MER)
Net Assets Mil NZD
Net Flows Mil NZD

Expense Breakdown

Management Expense Ratio (MER)	
Annual Report 31/03/17	0.67
Performance Fee	
Actual Performance Fee	N. Ap
Hurdle	N. Ap
High Watermark	N. Ap
Selected Components	
Max Management	0.54
Tax Cost Ratio (3-Year)	1.090

Fee Level

Fee Level	Peer Group
—	—
Fee Level Breakpoints	
High	>0.00
Above Average	0.00-0.00
Average	0.00-0.00
Below Average	0.00-0.00
Low	<0.00
◀ Fund	—
◀ Peer Median	—

Share Class Information Largest 1 of 1

Share Class	APIR	Category Name	Fee Level	MER	Fees (Max) — Mgmt Admin	Minimum Initial Inv	Assets Mil NZD	1-Yr Flow Mil NZD
Harbour NZ Core Fixed Interest	—	NZ Bonds	—	0.67	0.54 —	25,000	156.50	5.39

Morningstar Global Fund Report Disclosure

Currency

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