

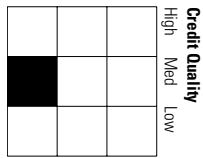
Harbour NZ Corporate Bond

23602

Morningstar Analyst Rating
Bronze

Morningstar Category NZ Bonds	Category Index S&P/NZX NZ Composite Invest Grade NZD	Total Assets 365 Mil NZD	Inception Date 22/01/09	Domicile/Currency NZL/NZD	Morningstar Rating ★★★
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Fixed Income Style



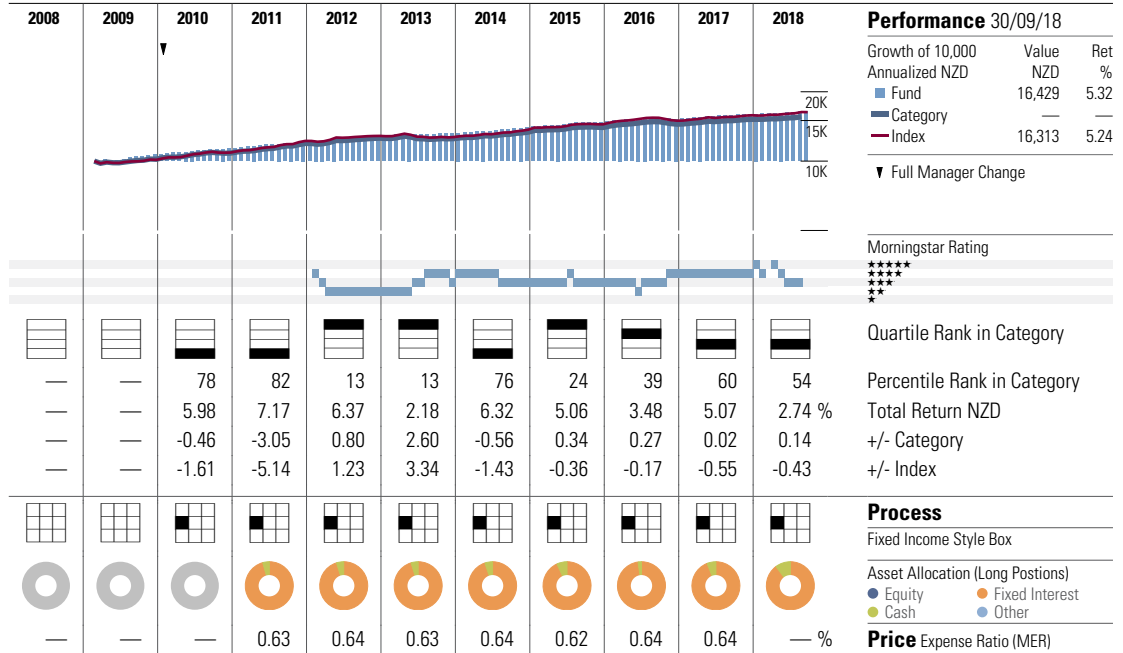
Ltd Mod Ext
Interest Rate Sensitivity

Style Box Factors

Credit Quality	Fund
Average Credit Quality	A
Investment Grade %	97.7
Below Invest Grade %	0.0
Interest Rate Sensitivity	
Avg Effective Duration	2.5
Avg Modified Duration	2.5
Avg Effective Maturity	3.1

People

Mark Brown	01/10
Christian Hawkesby	01/10
Total Named Managers	2



A good option for greater income potential.

Analyst View

Chris Douglas
Director

Morningstar Analyst Rating **Bronze**

Morningstar Pillars

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

Role in Portfolio: Supporting

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 | Harbour NZ Corporate Bond fund gets better with age and remains a genuine contender for investors seeking domestic corporate bond exposure with a regular income stream.

Harbour have put together a strong team with complementary skill-sets. We've come to appreciate that its experienced management team, sensible approach, and reasonable management fee are a superior alternative to investing in corporate bonds directly. Mark Brown is the portfolio manager responsible for portfolio strategy and implementation. After decades in the NZ fixed-income markets, including 15 years leading the fixed-income business at AllianceBernstein, he's got plenty of experience to do the job effectively. Meanwhile, Christian Hawkesby brings critical economic expertise, including wisdom gained over nine years with the Bank of England. They team is now well-resourced with Simon Pannett, leading much of the credit work.

The process is well-structured and robust. The fund sticks firmly to its knitting: high-quality corporate-bond exposure with minimal room for

error. Especially after Brown reduced exposure to subordinated debt and perpetual securities when he assumed responsibility, the portfolio maintains credit quality around the A level, which mitigates the risk of defaults. There are narrow limits around duration--it can only vary from the S&P/NZX Corporate A-Grade Index by 0.5 years--which means it has enough interest-rate exposure to guard against losses in bad credit markets. The team's credit research is capable enough to help avoid major missteps, though it may not add substantial value. However, the strategy's goal is modest and achievable without taking on too much risk--it seeks to keep up with the index on a net-of-fees basis. Taken together, these things mean it can play the defensive, income-generation role it should.

The strategy's record thus far suggests it can basically achieve that goal. Combine that with a reasonable management fee and it is easy to see that Harbour NZ Corporate Bond can serve investors well.

Harbour NZ Corporate Bond

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Process: Approach

Morningstar Category
NZ Bonds

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

Index Proxy
—

Gets the job done.

Process Pillar ● Neutral

May 11, 2018 | As the name suggests, Harbour New Zealand Corporate Bond invests primarily in New Zealand dollar corporate issues, though it can also hold local authority and government debt. It seeks to keep up with the S&P/NZX NZ Corporate Bond A-Grade Index after fees on a rolling 12-month basis, with the team primarily

adding value through sector allocation and credit selection. It is a modest goal but ensures the fund can play an appropriate role in an investor's portfolio.

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, including valuations and liquidity conditions, to develop a short- and medium-term outlook for bond yields and credit spreads. Mark Brown uses that to ad-

just the risk profile of the exposures via the allocation to credit and characteristics of the securities held. Credit analysis is somewhat less robust than peers but is adequate in light of the high-quality nature of the local corporate-bond market. It helps identify and avoid excessive leverage, poor governance, declining profitability, and so on.

Harbour keeps a keen eye on liquidity and transaction costs. 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

Credit Quality	History			Style	Bonds %
	2018	2017	2016		
High				■	89.8
Med				■	94.0
Low				■	97.7
				■	93.1
				■	94.8

Ltd Mod Ext

Interest Rate Sensitivity

Bonds % is based on portfolio data.

Style Box Factors

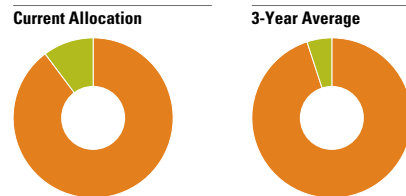
Credit Quality	Fund	3-Yr Avg	Category	Proxy
Average Credit Quality	A	A	A	—
Investment Grade %	97.7	96.8	99.0	—
Below Invest Grade %	0.0	0.0	0.0	—

Interest Rate Sensitivity	Fund	3-Yr Avg	Category	Proxy
Avg Effective Duration	2.5	2.9	3.1	—
Avg Modified Duration	2.5	2.9	3.1	—
Avg Effective Maturity	3.1	3.7	3.6	—

Income Surveyed 31/08/18

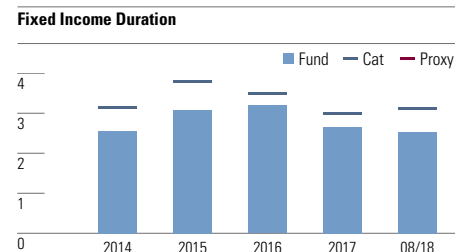
	Fund	3-Yr Avg	Category	Proxy
Average Coupon	3.7	3.4	4.1	—

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	89.8	95.0	0.0	0.0
● International Fixed Income	0.0	0.0	0.0	0.0
● Cash	10.2	5.0	0.0	0.0
● Other	0.0	0.0	0.0	0.0

Duration Surveyed 31/08/18



Year	Fund	Category	Proxy
2014	2.56	3.11	—
2015	3.08	3.76	—
2016	3.19	3.47	—
2017	2.66	2.96	—
08/18	2.53	3.08	—

Harbour NZ Corporate Bond

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Process: Portfolio

Morningstar Category
NZ Bonds

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

Index Proxy
—

High-quality, if somewhat concentrated.

Process Pillar ● Neutral

May 11, 2018 | This portfolio invests primarily in New Zealand corporate bonds, a market that's relatively high-quality in nature. The portfolio typically reflects that, with average credit quality typically at the A level. Granted, the portfolio has taken a more conservative and robust profile since coming under the Harbour banner in Janu-

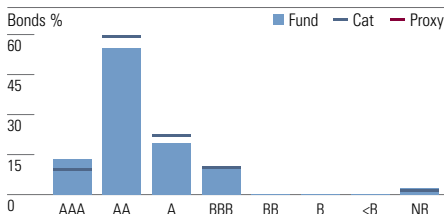
ary 2011. Harbour reduced the exposure to subordinate and perpetual debt. Now the portfolio is primarily exposed to senior debt issues rated A or higher, though it can hold up to 15% in BBB rated bonds and up to 20% in subordinated or perpetual securities.

They also limited active duration risk, so interest-rate duration must be within plus/minus 0.5 years of the benchmark, which means the portfolio will have duration about two to three years. The portfolio can hold government and local authority debt, but they're mostly used in small

doses to help manage duration. The nature of the credit market in New Zealand means the portfolio can be concentrated and will have considerable exposure to financials. No investment in non-NZD-denominated issues is allowed.

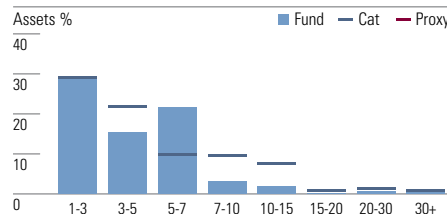
The focus on corporate credit means this strategy is best used as a Supporting Player within an investor's defensive allocation. It could be used to boost income generation. Especially for investors with a high allocation to equity, this should be paired with a more traditional fixed-interest fund.

Credit Quality Surveyed 31/08/18



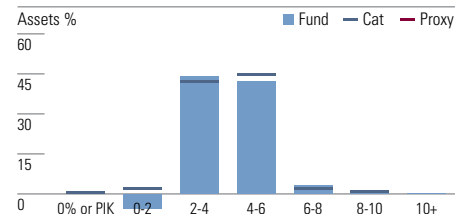
Credit Quality	Fund	3-Yr Avg	Category	Proxy
AAA	13.2	11.9	8.8	—
AA	54.9	58.4	58.7	—
A	19.4	16.2	21.8	—
BBB	10.2	10.3	9.6	—
BB	0.0	0.0	0.0	—
B	0.0	0.0	0.0	—
Below B	0.0	0.0	0.0	—
Not Rated	2.3	3.2	1.0	—

Maturity Schedule 31/08/18



Maturity (Years)	Fund	3-Yr Avg	Category	Proxy
1 to 3	28.8	—	28.9	—
3 to 5	15.3	—	21.5	—
5 to 7	21.6	—	9.4	—
7 to 10	3.1	—	9.4	—
10 to 15	1.9	—	7.3	—
15 to 20	0.0	—	0.6	—
20 to 30	0.5	—	0.9	—
Over 30	1.2	—	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	-5.5	—	1.5	—
2 to 4	44.1	—	41.7	—
4 to 6	42.2	—	44.1	—
6 to 8	3.2	—	1.6	—
8 to 10	0.3	—	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)
137	0	21	17%	55%

Top 10 Fixed Income Holdings	Country	Currency	Assets %	Super Sector	Primary Sector	Secondary Sector
New Zealand Local Government Funding Agency Ltd 2.75%	NZL	NZD	8.61	Government	Government Related	Agency/Quasi Agency
Dunedin City Treasury Limited 3.61%	NZL	NZD	2.80	Government	Government Related	Agency/Quasi Agency
Fonterra Co-operative Group Limited 4.33%	NZL	NZD	2.61	Corporate	Corporate Bond	Consumer Defensive
ASB Bank Limited 4.24%	NZL	NZD	2.50	Corporate	Corporate Bond	Financial Services
Auckland City Council 4.18%	NZL	NZD	2.35	Government	Government Related	Agency/Quasi Agency
New Zealand Local Government Funding Agency Ltd 3.5%	NZL	NZD	1.89	Government	Government Related	Agency/Quasi Agency
ANZ Bank New Zealand Limited 4.48%	NZL	NZD	1.83	Corporate	Corporate Bond	Financial Services
Kiwibank Limited 4.65%	NZL	NZD	1.71	Government	Government Related	Agency/Quasi Agency
Westpac New Zealand Limited 3.8%	NZL	NZD	1.60	Corporate	Corporate Bond	Financial Services
Westpac New Zealand Limited 3.72%	NZL	NZD	1.42	Corporate	Corporate Bond	Financial Services

Harbour NZ Corporate Bond

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Performance

Morningstar Category
NZ Bonds

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

Gets the job done.

Performance Pillar ● Neutral

May 11, 2018 | Harbour NZ Corporate Bond has delivered for investors where it counts with a strong performance track-record and a regular income stream. This strategy came under the Harbour banner in January 2011. Harbour subsequently tweaked its approach to mitigate risk. Looking at the record from the start of 2012 to 31

March 2018, this vehicle's 4.65% annualised return (net of fees) was modestly behind the S&P/NZX NZ Corporate A-Grade Index but looked reasonably good relative to peers. (The category peers are a mix of diversified NZ bond funds and other credit-focused funds. Relative to the former, this strategy should underperform when bond yields are falling, especially if credit spreads are widening. It should outperform when yields are rising, especially if that's associated with a strong environment for credit.)

This fund did well in 2012 and 2013. Both

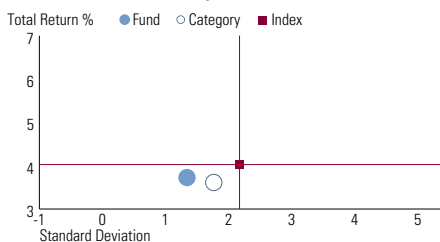
years it only surpassed its benchmark by a small margin, but it beat most peers. The showing in 2013 was especially impressive, as the broader domestic fixed-income market ended the year in the red amid rising bond yields while this vehicle gained 2.2%. It was less successful on a relative basis from 2014-17, in large part because of relatively short duration positioning as yields fell. Performance over the first quarter of 2018 was as expected with interest volatility back, this approach was easily ahead of many in the peer group.

Morningstar Rating and Risk 30/09/18

Period	Total Ret %	Morningstar Ret vs Cat	Morningstar Risk vs Cat	Morningstar Rating
3 Years	3.73	Avg	Below Avg	★★★
5 Years	4.64	Avg	Below Avg	★★★
10 Years	—	—	—	—
Overall Morningstar Rating				★★★

Risk Analysis 30/09/18

3-Year Return and Risk Analysis



3-Year Risk Measures

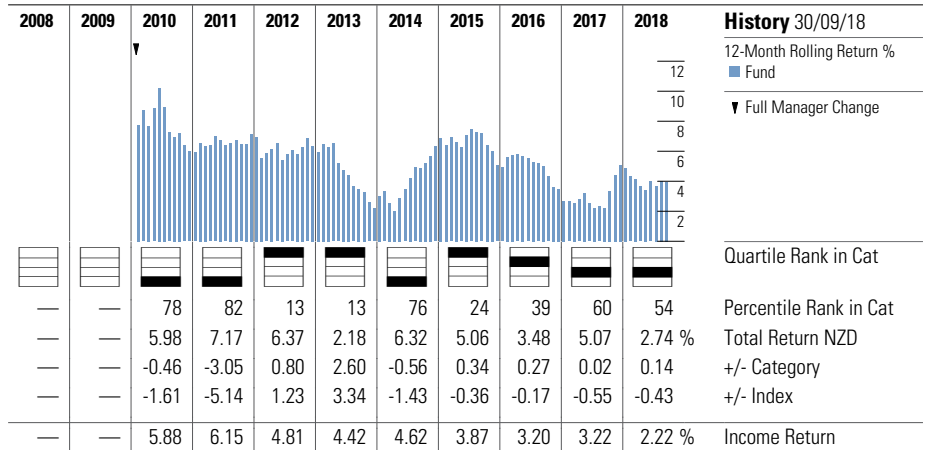
	Fund	Category	Index
Standard Deviation	1.34	1.77	2.17
Sharpe Ratio	1.33	0.99	—
R-Squared	89.88	84.93	—
Beta	0.59	0.76	—
Alpha	0.56	0.01	—

Max Drawdown 01/03/09 to 30/09/18

	Fund	Category	Index
Max Drawdown (%)	-1.55	—	-3.83
Peak Date	10/16	—	05/13
Valley Date	12/16	—	08/13
Max Drawdown (Months)	3	—	4

Upside/Downside — to —

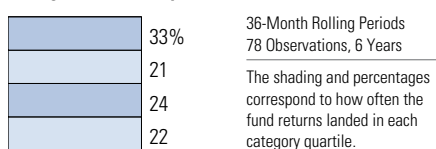
	Fund	Category	Index
Upside Capture Ratio	—	—	—
Downside Capture Ratio	—	—	—



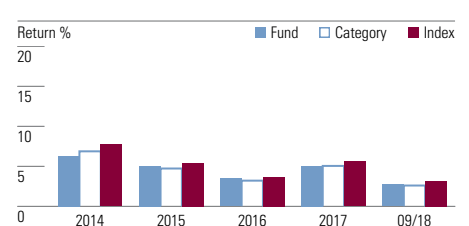
Returns 30/09/18

	Total Ret %	Investor Ret %	% Rank in Cat	Cat Ret %	Index Ret %
1 Year	3.96	3.96	74	4.03	4.84
3 Years	3.73	3.71	35	3.61	4.03
5 Years	4.64	4.45	59	4.61	5.18
10 Years	—	—	—	5.12	5.80
Tenure 01/10	5.06	—	—	—	5.60
Inception 01/09	5.23	—	—	—	5.15

Rolling Return Summary



Calendar Year Returns



Year	Fund %	Category	Index %
2014	6.32	6.87	7.74
2015	5.06	4.73	5.42
2016	3.48	3.21	3.65
2017	5.07	5.05	5.62
09/18	2.74	2.60	3.17

Harbour NZ Corporate Bond

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Morningstar Analyst Rating
 **Bronze**

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. As 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 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	8.75 Years

Advisor

Harbour Asset Management Limited

Subadvisor (0 of 0)

Mark Brown 01/10 to Present

Years of Experience	Current Funds Managed	Fund AUM
8	2	522 Mil NZD

Largest Funds Managed

	Tenure Dates	Role	Net Assets Mil NZD	Portfolio Turnover %	Tenure Ret %	Index Ret %
Harbour NZ Corporate Bond	01/10-to Present	1 of 2	365	45	5.06	5.60
Harbour NZ Core Fixed Interest	05/11-to Present	1 of 2	156	350	4.76	4.99

Christian Hawkesby 01/10 to Present

Years of Experience	Current Funds Managed	Fund AUM
8	2	522 Mil NZD

Largest Funds Managed

	Tenure Dates	Role	Net Assets Mil NZD	Portfolio Turnover %	Tenure Ret %	Index Ret %
Harbour NZ Corporate Bond	01/10-to Present	1 of 2	365	45	5.06	5.60
Harbour NZ Core Fixed Interest	05/11-to Present	1 of 2	156	350	4.76	4.99

Harbour NZ Corporate Bond

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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 Corporate Bond

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Morningstar Analyst Rating
 **Bronze**

Price

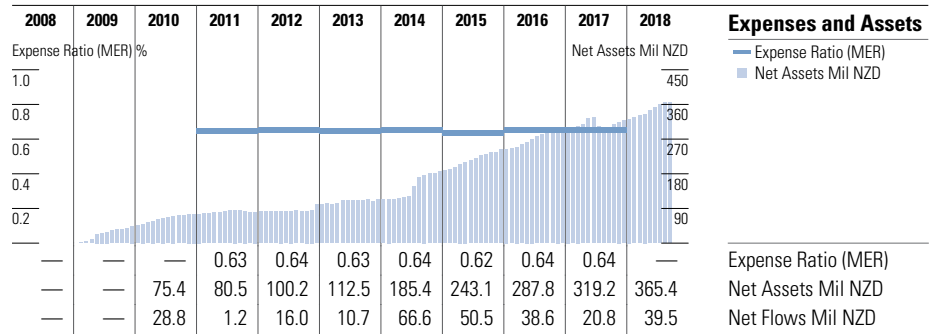
Morningstar Category
 NZ Bonds

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

Competitively priced.

Price Pillar + Positive

May 11, 2018 | Harbour New Zealand Corporate Bond has an annual management of 0.60%, which is fairly attractive relative to peers. Its total expense ratio of 0.64% for the financial year ended 31 March 2017 was also reasonable.



Expenses and Assets

- Expense Ratio (MER)
- Net Assets Mil NZD

Year	Expense Ratio (MER)	Net Assets Mil NZD	Net Flows Mil NZD
2008	—	—	—
2009	—	—	—
2010	—	75.4	28.8
2011	0.63	80.5	1.2
2012	0.64	100.2	16.0
2013	0.63	112.5	10.7
2014	0.64	185.4	66.6
2015	0.62	243.1	50.5
2016	0.64	287.8	38.6
2017	0.64	319.2	20.8
2018	—	365.4	39.5

Expense Breakdown

Management Expense Ratio (MER)	
Annual Report 31/03/17	0.64
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)	1.030

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 Corporate Bond	—	NZ Bonds	—	0.64	0.54 —	25,000	365.96	56.23

Morningstar Global Fund Report Disclosure

Currency

This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. Our financial product research may be withdrawn or changed at any time as other information becomes available to us. This report will be updated if events affecting the report materially change.

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- the process by which products are selected for coverage,
- the filters and research methodology applied, and
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