

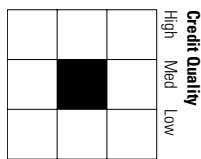
Harbour NZ Core Fixed Interest

23777

Morningstar Analyst Rating
Bronze
 8 Jul 2020
 10:03, UTC-0500

Morningstar Category NZ Bonds	Category Index S&P/NZX NZ Composite Invest Grade NZD	Total Assets 178 Mil NZD	Inception Date 20/05/11	Domicile/Currency NZL/NZD	Morningstar Rating ★★★
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Fixed Income Style



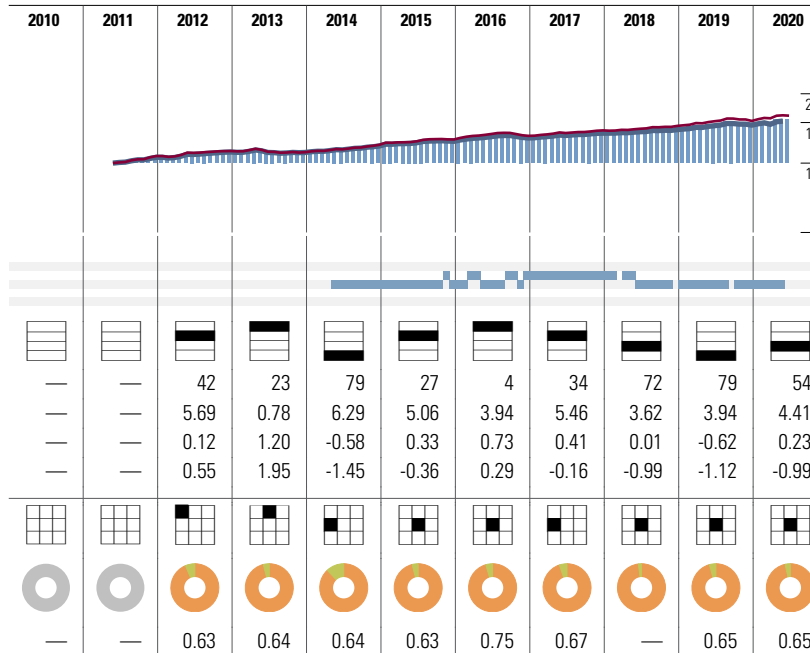
Interest Rate Sensitivity

Style Box Factors

Credit Quality	Fund
Average Credit Quality	BBB
Investment Grade %	93.7
Below Invest Grade %	0.0
Interest Rate Sensitivity	
Avg Effective Duration	4.9
Avg Modified Duration	4.9
Avg Effective Maturity	5.6

People

Mark Brown	05/11
Total Named Managers	1



Performance 30/06/20

Growth of 10,000 Annualized NZD	Value NZD	Ret %
Fund	15,461	4.91
Category	—	—
Index	16,064	5.36

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 (ICR/MER)

Seasoned campaigners make this a durable defensive investment.

Analyst View

Tim Wong, CFA, Director

Morningstar Analyst Rating

Morningstar Pillars

Process Page 2-3	Average
Performance Page 4	
People Page 5	Above Average
Parent Page 6	Above Average
Price Page 7	

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




Jul 08, 2020 | Our respect for the leadership Mark Brown provides underpins our favourable view of Harbour NZ Core Fixed Interest. Brown took on the head of fixed-income role after co-founder Christian Hawkesby left to join the Reserve Bank of New Zealand in March 2019, and he has been the main decision-maker on this vehicle for a number of years. Hawkesby is a well-regarded figure, so his absence is meaningful, though Brown has decades of local fixed-interest experience and credible tenure here, so we are confident that he can do the job effectively. Brown is flanked by an appropriately structured team: Simon Pannett covers credit, seasoned bond manager George Henderson joined in June 2018, and Hamish Pepper arrived in July 2019 to fill a new strategist role to solidify more-contemporaneous market analysis. We appreciate the continued investment in the team here.

This strategy invests mainly in investment-grade government, corporate, and local authority bonds denominated in the New Zealand dollar, setting interest-rate duration within 1.5

years of the Bloomberg NZ Bond Composite Index. Valuation is the driving force. Harbour tries to outperform through interest-rate positioning and sector allocation while also pulling some other levers, such as relative value calls on local market bond yields relative to U.S. and Australian rates. Adhering to a more medium-term perspective to try to facilitate repeatable decisions is commendable. That said, its valuation focus has struggled with interest-rate and especially inflation calls as yields have plumbed new depths, dragging down performance versus index. Harbour has incorporated more quantitative tools to better capture market dynamics, and Pepper may further impact proceedings here, but some rivals have reacted more perceptively to the extent of monetary easing that has occurred globally. Nevertheless, this remains a conservative and effective diversifier during periods of equity market stress and is reasonably priced. As a result, we uphold our view that Harbour NZ Core Fixed Interest is an above-average proposition.

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Process: Approach

Morningstar Category
 NZ Bonds

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

Index Proxy
 —

A traditional New Zealand bond portfolio fueled by top-down analysis.

Process Pillar  Average

Jul 08, 2020 | Harbour invests in a mix of government and high-quality corporate bonds to outperform the Bloomberg NZ Bond Composite Bond index by 1% per year over rolling three-year periods. It switched to this hurdle at the start of 2019 from an evenly split index comprising the S&P/ANZ NZ Government Bond and the S&P/NZX

Corporate A-Grade Bond indexes. 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. Medium-term valuation is its guiding principle, though Harbour supplements this with more-contemporaneous technical data to gauge market sentiment. Harbour seeks 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.

Style Surveyed 31/05/20

Fixed Income Style Box

Credit Quality			History	Style	Bonds %
High	Med	Low			
			2020		96.5
			2019		95.6
			2018		97.9
			2017		94.9
			2016		95.4

Ltd Mod Ext
Interest Rate Sensitivity
 Bonds % is based on portfolio data.

Style Box Factors

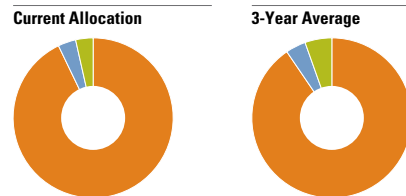
Credit Quality	Fund	3-Yr Avg	Category	Proxy
Average Credit Quality	BBB	A	A	—
Investment Grade %	93.7	97.9	100.0	—
Below Invest Grade %	0.0	0.0	0.0	—

Interest Rate Sensitivity	Fund	3-Yr Avg	Category	Proxy
Avg Effective Duration	4.9	4.0	4.0	—
Avg Modified Duration	4.9	4.0	—	—
Avg Effective Maturity	5.6	4.7	3.8	—

Income Surveyed 31/05/20

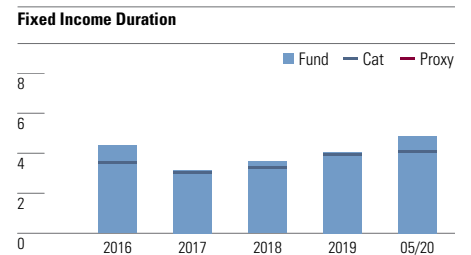
	Fund	3-Yr Avg	Category	Proxy
Average Coupon	0.0	2.5	3.1	—

Asset Allocation (Net Positions) 31/05/20



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	92.9	90.5	0.0	0.0
● International Fixed Income	3.6	4.1	0.0	0.0
● Cash	3.5	5.4	0.0	0.0
● Other	0.0	0.0	0.0	0.0

Duration Surveyed 31/05/20



Year	Fund	Category	Proxy
2016	4.38	3.47	—
2017	3.17	2.96	—
2018	3.58	3.23	—
2019	4.07	3.89	—
05/20	4.85	4.00	—

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Process: Portfolio

Morningstar Category
 NZ Bonds

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

Index Proxy
 —

Duration has stayed fairly close to the index, while credit risk remains modest.

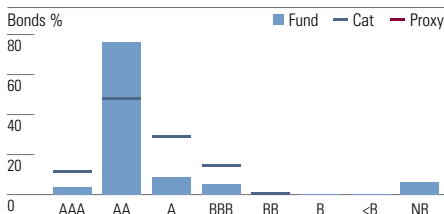
Process Pillar ● Average

Jul 08, 2020 | 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. Switching to the Bloomberg NZ Bond Composite Index at the start of 2019 did not affect the portfolio materially. Historically, this

vehicle has had 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) than many peers. Still, this strategy can be an investor's primary fixed-interest allocation. The portfolio exhibits modest credit risk, with average credit quality at the AA or A level. 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 index. This strategy had favoured a short duration stance through much of 2014-19 and held an allocation

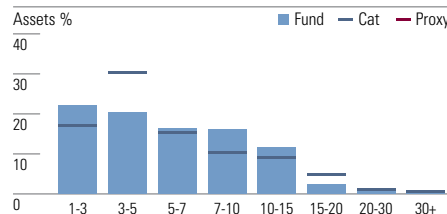
to inflation linked bonds, though it shifted into a long duration position in early 2020 as the coronavirus struck markets. It can invest up to 20% in Australian corporates and up to 20% in futures that give exposure to U.S. and Australian rates (all foreign-currency exposures are hedged). Such trades are designed to profit from relative value opportunities. Harbour managed about NZD 1.4 billion in this strategy in April 2020.

Credit Quality Surveyed 31/05/20



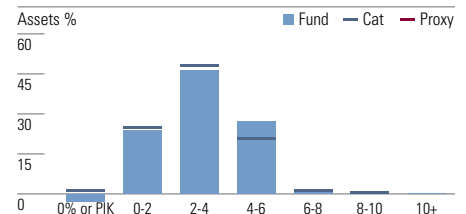
Credit Quality	Fund	3-Yr Avg	Category	Proxy
AAA	3.8	7.5	10.7	—
AA	76.0	73.2	47.2	—
A	8.8	12.3	28.4	—
BBB	5.1	5.0	13.7	—
BB	0.0	0.0	0.0	—
B	0.0	0.0	0.0	—
Below B	0.0	0.0	0.0	—
Not Rated	6.3	2.1	0.0	—

Maturity Schedule 31/05/20



Maturity (Years)	Fund	3-Yr Avg	Category	Proxy
1 to 3	22.1	—	16.8	—
3 to 5	20.4	—	30.1	—
5 to 7	16.3	—	14.9	—
7 to 10	16.1	—	9.9	—
10 to 15	11.6	—	8.7	—
15 to 20	2.3	—	4.5	—
20 to 30	1.5	—	0.9	—
Over 30	0.6	—	0.4	—

Coupon Range 31/05/20



Coupon Range	Fund	3-Yr Avg	Category	Proxy
0% or Paid In Kind	-2.9	—	0.8	—
0 to 2	23.8	—	24.3	—
2 to 4	46.4	—	47.6	—
4 to 6	27.2	—	20.3	—
6 to 8	0.6	—	0.9	—
8 to 10	0.0	—	0.2	—
More than 10	0.0	—	0.0	—

Portfolio Holdings 31/05/20

Bond Holdings	Equity Holdings	Other Holdings	Assets in Top 10 Holdings	Turnover Ratio (Reported)
175	0	10	27%	415%

Top 10 Fixed Income Holdings	Country	Currency	Assets %	Super Sector	Primary Sector	Secondary Sector
New Zealand (Government Of) 0.06%	NZL	NZD	13.45	Government	Government	Treasury
New Zealand (Government Of) 0.03%	NZL	NZD	12.42	Government	Government	Treasury
New Zealand (Government Of) 0.02%	NZL	NZD	7.84	Government	Government	Inflation Protected
New Zealand (Government Of) 0.02%	NZL	NZD	6.63	Government	Government	Treasury
New Zealand (Government Of) 0.03%	NZL	NZD	5.69	Government	Government	Treasury
New Zealand Local Government Funding Agency Ltd 0.04%	NZL	NZD	2.48	Government	Government Related	Agency/Quasi Agency
New Zealand (Government Of) 0.03%	NZL	NZD	2.32	Government	Government	Treasury
New Zealand (Government Of) 0.03%	NZL	NZD	1.75	Government	Government	Inflation Protected
Housing New Zealand Limited 0.02%	NZL	NZD	1.41	Corporate	Corporate Bond	Real Estate
New Zealand Local Government Funding Agency Ltd 0.02%	NZL	NZD	1.31	Government	Government Related	Agency/Quasi Agency

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Performance

Morningstar Category
 NZ Bonds

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

Reasonable against peers, but has struggled compared with the index.

Performance Pillar

Jul 08, 2020 | This strategy has performed reasonably compared with peers since it began in May 2011, though has struggled to keep pace with both its prior split index as well as the Morningstar Category benchmark. 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 were more than reasonable, with a strong showing in 2016 elevating Harbour toward the top of its category. This strategy did struggle noticeably during 2018 and 2019, however. Exposure to inflation-linked bonds and the firm's short-duration stance suffered as growth and inflation conditions lagged below initial expectations, sending yields lower. On that note, duration management has been a mixed bag over time, as Harbour's valuation leaning has generally favoured a shorter-duration stance. More

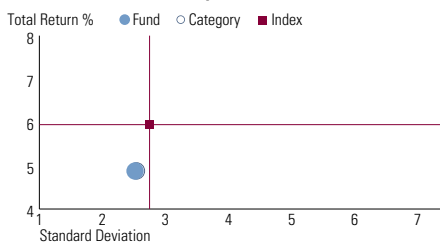
positively, the credit allocation and relative value trades have been steady contributors over the years. Harbour improved its peer-relative standing during the first five months of 2020 but continued to lag the benchmark. Its move to lift duration helped as risk aversion spiked with pandemic concerns, but the inflation-linked bond weight continued to drag.

Morningstar Rating and Risk 30/06/20

Period	Total Ret %	Morningstar Ret vs Cat	Morningstar Risk vs Cat	Morningstar Rating
3 Years	4.88	Below Avg	Avg	★★
5 Years	4.61	Avg	Avg	★★★
10 Years	—	—	—	—
Overall Morningstar Rating				★★★

Risk Analysis 30/06/20

3-Year Return and Risk Analysis



3-Year Risk Measures

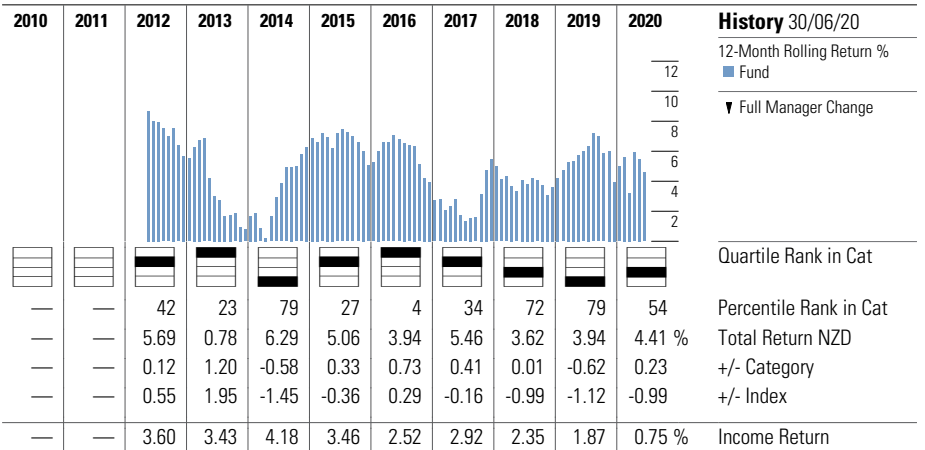
	Fund	Category	Index
Standard Deviation	2.52	2.54	2.75
Sharpe Ratio	1.36	1.34	—
R-Squared	93.45	77.60	—
Beta	0.89	0.82	—
Alpha	-0.52	-0.20	—

Max Drawdown 01/06/11 to 30/06/20

	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 30/06/20

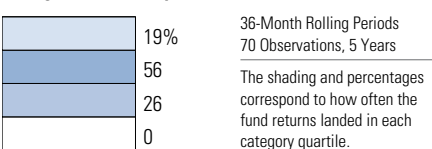
	Fund	Category	Index
Upside Capture Ratio	17.14	—	19.46
Downside Capture Ratio	70.74	—	100.00



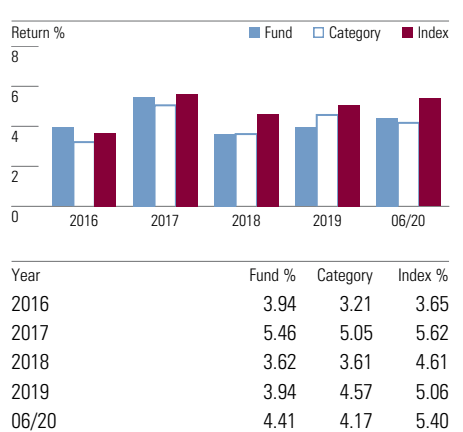
Returns 30/06/20

	Total Ret %	Investor Ret %	% Rank in Cat	Cat Ret %	Index Ret %
1 Year	4.58	4.31	69	4.81	5.71
3 Years	4.88	4.80	70	4.88	5.95
5 Years	4.61	4.45	66	4.44	5.25
10 Years	—	—	—	4.86	5.51
Tenure 05/11	4.89	—	—	—	5.35
Inception 05/11	4.89	—	—	—	5.35

Rolling Return Summary




Calendar Year Returns



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People

Morningstar Category
 NZ Bonds

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

Experienced people remain even after Christian Hawkesby's departure.

People Pillar

 Above Average

Jul 08, 2020 | Mark Brown is the central figure in Harbour's fixed-interest operation. He leads the team and portfolios and ascended to the head of fixed-income role following Christian Hawkesby's departure to the Reserve Bank of New Zealand in March 2019. Hawkesby was pivotal in starting this fixed-interest unit in 2010, and his responsi-

ilities spanned across investment research and client relations. Co-founder Brown has decades of experience managing fixed income in the New Zealand market, including 15 years leading the fixed-income business at AllianceBernstein. The firm has invested into its team. Simon Pannett leads analysis of credit issuers within the fixed-interest and income funds, continuing his steady ascent since shifting across from multi-asset investing in mid-2013. George Henderson joined as portfolio manager in June 2018, filling the void left by Declan McKeefry, who left the firm in April

2018. Henderson spent several years managing portfolios at Royal London Asset Management before relocating to New Zealand. Harbour hired Hamish Pepper in 2019 as a strategist, with Pepper having spent stints at Barclays Investment Bank and the Reserve Bank of NZ. A meaningful portion of Harbour Asset Management's profits is the source of staff bonus compensation. Fixed-interest team members have modest slices of equity and co-investment alongside unitholders.

Management Team

Number of Managers	Longest Tenure
1	9.17 Years

Advisor

Harbour Asset Management Limited

Subadvisor (0 of 0)

Mark Brown 05/11 to Present

Years of Experience	Current Funds Managed	Fund AUM
10	2	618 Mil NZD

Largest Funds Managed

Largest Funds Managed	Tenure Dates	Role	Net Assets Mil NZD	Portfolio Turnover %	Tenure Ret %	Index Ret %
Harbour NZ Corporate Bond	01/10-to Present	Lead	439	45	5.20	5.81
Harbour NZ Core Fixed Interest	05/11-to Present	Lead	178	350	4.89	5.35

Harbour NZ Core Fixed Interest

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Parent

Morningstar Category
NZ Bonds

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

A strong and steady steward.

Parent Pillar

 Above Average

Feb 25, 2019 | Harbour Asset Management is a boutique equities and fixed-interest investment house that has evolved from Alliance Bernstein. The shop was officially set up in 2010 as an equities house following the dissolution of AB's NZ business, with Jarden funding the initial establishment costs. Fixed interest capability was

added in 2011, which was a sensible and measured rollout. Jarden still owns 76% of the business, though we expect this to be diluted in the future, as staff continues 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 members 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 is 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	439.5	★★★	5.12	57	4.67	62	—
Harbour Australasian Equity	Equity Region Australasia	285.1	★★★★	13.54	30	14.83	9	—
Harbour NZ Equity Advanced Beta Fund	Equity Region NZ	263.8	★	9.80	100	11.36	95	—
Harbour NZ Core Fixed Interest	NZ Bonds	178.1	★★★	4.88	70	4.61	66	—
Harbour Enhanced Cash	Cash	158.0	—	—	—	—	—	—

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	Equity Region Australasia	285.1	★★★★	13.54	30	14.83	9	—
Harbour Australasian Equity Focus Fund	Equity Region Australasia	15.4	★★★★	10.89	52	12.91	34	—
Harbour NZ Corporate Bond	NZ Bonds	439.5	★★★	5.12	57	4.67	62	—
Harbour NZ Core Fixed Interest	NZ Bonds	178.1	★★★	4.88	70	4.61	66	—
Harbour Income	Multisector - Moderate	129.0	★★	4.65	70	—	—	—

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 NZ Equity Advanced Beta Fund	Equity Region NZ	263.8	★	9.80	100	11.36	95	—
Harbour Australasian Equity Income	Equity Region Australasia	48.6	★★	5.49	88	6.78	88	—
Harbour Income	Multisector - Moderate	129.0	★★	4.65	70	—	—	—
Harbour NZ Core Fixed Interest	NZ Bonds	178.1	★★★	4.88	70	4.61	66	—
Harbour NZ Corporate Bond	NZ Bonds	439.5	★★★	5.12	57	4.67	62	—

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	285.1	 Gold	13.54	30	14.83	9	—
Harbour NZ Core Fixed Interest	NZ Bonds	178.1	 Bronze	4.88	70	4.61	66	—
Harbour Australasian Equity Income	Equity Region Australasia	48.6	 Bronze	5.49	88	6.78	88	—
Harbour NZ Corporate Bond	NZ Bonds	439.5	 Neutral	5.12	57	4.67	62	—

Most Recent Fund Launches	Category Name	Net Assets Mil NZD	Inception Date	Total Return % Since Inception	ICR	Fee Level
Harbour Active Growth	Multisector - Growth	7.2	2019-11-01	6.89	0.95	—
Harbour Enhanced Cash	Cash	158.0	2019-08-01	—	0.25	—
Harbour Long Short	Miscellaneous	2.5	2019-01-01	6.69	1.43	—
Harbour Real Estate Investment	Equity Sector NZ - Real Estate	13.5	2018-10-01	6.47	0.72	—
Harbour Income	Multisector - Moderate	129.0	2015-10-21	4.65	0.67	—

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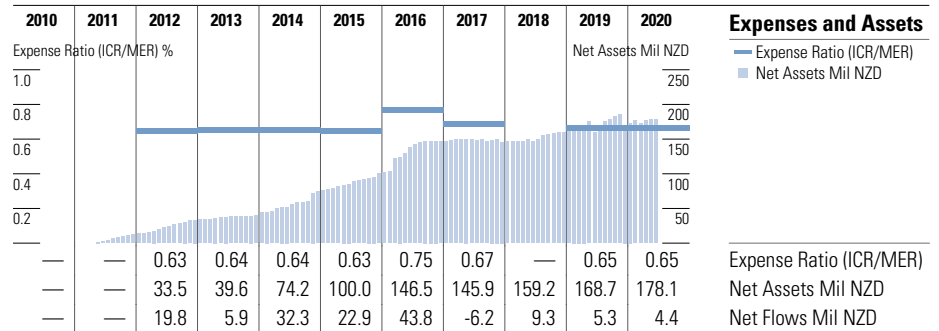
Price

Morningstar Category
 NZ Bonds

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

Price Pillar

Jul 08, 2020 | It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's second-cheapest quintile. Based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Bronze.



Expense Breakdown

Management Expense Ratio (MER)	
Annual Report 31/03/20	0.65
Performance Fee	
Actual Performance Fee	N. Ap
Hurdle	N. Ap
High Watermark	N. Ap
Selected Components	
Management	0.54
Tax Cost Ratio (3-Year)	1.390

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	—	0.65	0.54 —	25,000	176.30	13.49