

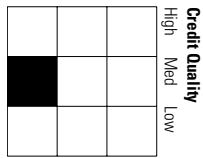
Harbour NZ Corporate Bond

23602

Morningstar Analyst Rating
Neutral

Morningstar Category NZ Bonds	Category Index S&P/NZX NZ Composite Invest Grade NZD	Total Assets 391 Mil NZD	Inception Date 22/01/09	Domicile/Currency NZL/NZD	Morningstar Rating ★★★★
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Fixed Income Style



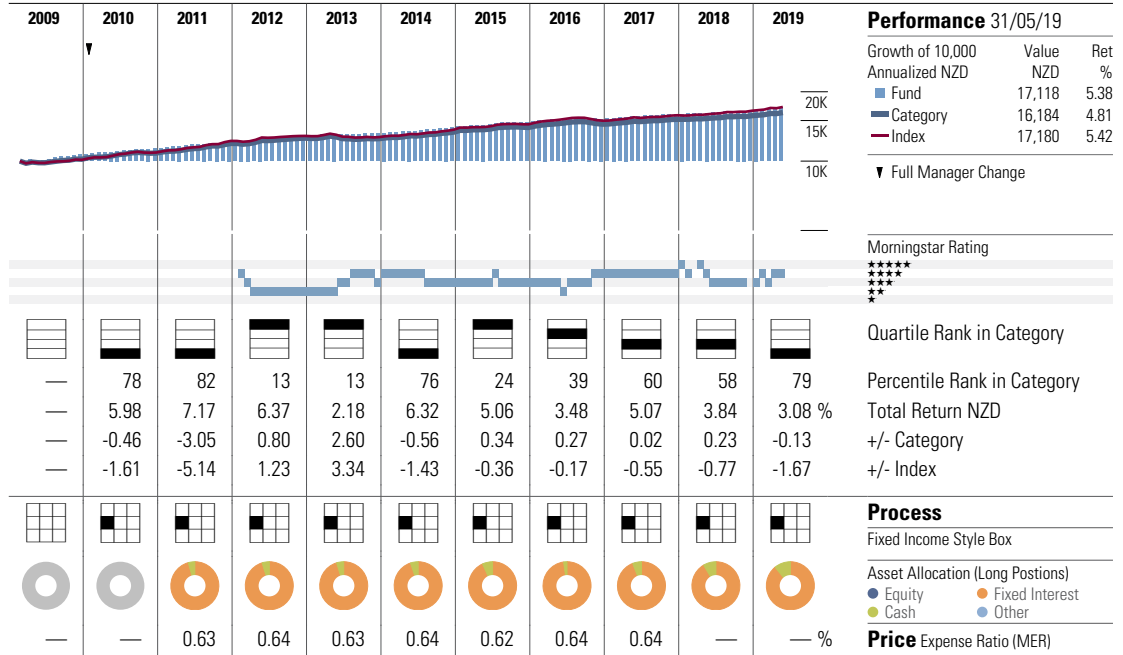
Interest Rate Sensitivity

Style Box Factors

Credit Quality	Fund
Average Credit Quality	A
Investment Grade %	97.1
Below Invest Grade %	0.0
Interest Rate Sensitivity	
Avg Effective Duration	3.3
Avg Modified Duration	3.3
Avg Effective Maturity	3.7

People

Mark Brown	01/10
Total Named Managers	1



A solid team is limited by a narrow investment universe.

Analyst View

Tim Wong, CFA

Director

Morningstar Analyst Rating Neutral

Morningstar Pillars

Process Page 2-3	⊖ Negative
Performance Page 4	⊙ Neutral
People Page 5	⊕ Positive
Parent Page 6	⊕ Positive
Price Page 7	⊙ Neutral

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 16, 2019 | There is a high-quality investment team at the wheel of Harbour NZ Corporate Bond, but we have greater doubts over this strategy's ability to surpass its benchmark given the narrow universe and portfolio risk constraints.

The experienced team retains a diverse mix of skills, even after the departure of its respected head of fixed income Christian Hawkesby in March 2019. Mark Brown took on this leadership role but had already been the main decision-maker on this particular vehicle for several years. Brown has decades of local fixed-interest experience, so we're confident he can do the job effectively. He's supported by Simon Pannett covering credit, and the shop also appointed seasoned bond manager George Henderson in June 2018 to bolster its ranks.

This approach looks to surpass the S&P/NZX NZ Corporate Bond A-Grade index by applying a top-down framework to evaluating macroeconomic conditions, supplemented by standard credit research. Harbour sticks firmly to high-quality NZD corporate-bond and local gov-

ernment authority exposure with minimal room for error. The team's credit research is capable enough to help avoid major mis-steps. However, we have concerns the team has few avenues to add substantial value over the benchmark, given the relatively narrow universe it operates in and its approach to maintaining duration close to the index. Its index had fewer than 20 distinct issuers in April 2019, with about 60% held in the top six. We do acknowledge Harbour's ability to invest (modestly) off-benchmark and that it has delivered decent returns against the broader New Zealand bond cohort, but this strategy has consistently fallen short of its performance objective after fees from 2014 to early 2019, with negligible contribution from security selection.

Investors are getting a corporate bond portfolio that should fare respectably during periods of stress, given its relatively conservative operators. However, we see little to distinguish it from the underlying universe it operates in, and so consider it a functional, rather than definitively superior, choice.

Harbour NZ Corporate Bond

23602

Morningstar Analyst Rating
Neutral

Process: Approach

Morningstar Category
NZ Bonds

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

Index Proxy
—

Marries macro and traditional credit analysis.

Process Pillar - Negative

May 16, 2019 | 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 mainly looking to add value through sec-

tor allocation and credit selection.

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. Harbour uses that to adjust 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, though it fishes in a relatively high-quality local corporate-bond market. This helps identify and avoid excessive leverage, poor governance, and declining profitability among companies.

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 31/05/19

Fixed Income Style Box

Credit Quality		History	Style	Bonds %
High Med Low	Ltd Mod Ext	2019		89.0
		2018		91.5
		2017		94.0
		2016		97.7
		2015		93.1

Bonds % is based on portfolio data.

Style Box Factors

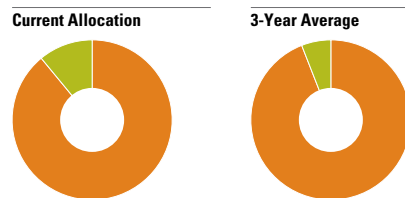
Credit Quality	Fund	3-Yr Avg	Category	Proxy
Average Credit Quality	A	A	A	—
Investment Grade %	97.1	97.0	97.6	—
Below Invest Grade %	0.0	0.0	0.0	—

Interest Rate Sensitivity	Fund	3-Yr Avg	Category	Proxy
Avg Effective Duration	3.3	2.9	3.4	—
Avg Modified Duration	3.3	2.9	3.4	—
Avg Effective Maturity	3.7	3.7	4.3	—

Income Surveyed 31/05/19

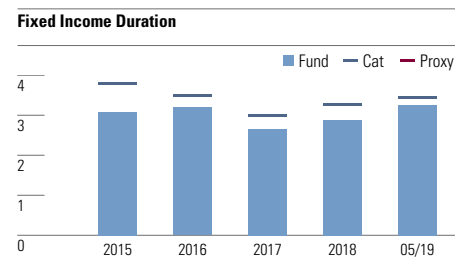
	Fund	3-Yr Avg	Category	Proxy
Average Coupon	3.1	3.3	3.5	—

Asset Allocation (Net Positions) 31/05/19



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	89.0	94.1	0.0	0.0
● International Fixed Income	0.0	0.0	0.0	0.0
● Cash	11.0	5.9	0.0	0.0
● Other	0.0	0.0	0.0	0.0

Duration Surveyed 31/05/19



Year	Fund	Category	Proxy
2015	3.08	3.76	—
2016	3.19	3.47	—
2017	2.66	2.96	—
2018	2.88	3.23	—
05/19	3.26	3.42	—

Harbour NZ Corporate Bond

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Morningstar Analyst Rating
Neutral

Process: Portfolio

Morningstar Category
NZ Bonds

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

Index Proxy
—

A relatively conservative portfolio, limited by a thin investable universe.

Process Pillar - Negative

May 16, 2019 | 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. Harbour adopted a more conservative and robust profile since taking over in January 2011, reducing exposure to subordinate

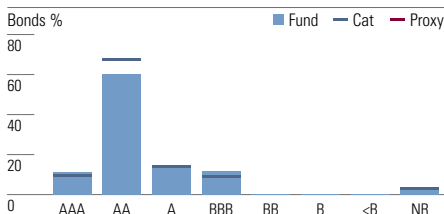
and perpetual debt. There is latitude to invest up to 15% in BBB rated bonds and up to 20% in subordinated or perpetual securities, but the portfolio primarily sticks to senior, high grade debt.

They also limited active duration risk to within plus/minus 0.5 years of the benchmark, so 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 New Zealand credit market's concentration is reflected in this portfolio, which has considerable exposure to

financials. Non-NZD-denominated issues can be held on a currency hedged basis.

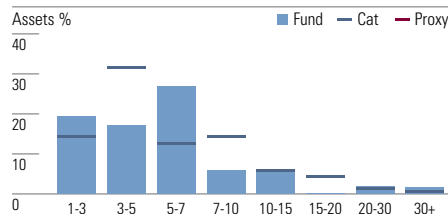
The focus on corporate credit means this strategy is best used as a Supporting Player within an investor's defensive allocation. It could be used to boost income generation. Especially for investors with a high allocation to equity, this should be paired with a more traditional fixed-interest fund. Harbour managed about NZD 379 million at the end of 2018.

Credit Quality Surveyed 31/05/19



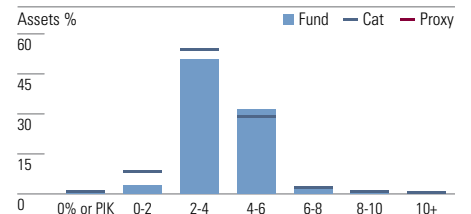
Credit Quality	Fund	3-Yr Avg	Category	Proxy
AAA	11.1	12.6	8.9	—
AA	60.4	57.7	66.7	—
A	14.1	16.2	13.4	—
BBB	11.5	10.4	8.6	—
BB	0.0	0.0	0.0	—
B	0.0	0.0	0.0	—
Below B	0.0	0.0	0.0	—
Not Rated	2.9	3.0	2.4	—

Maturity Schedule 31/05/19



Maturity (Years)	Fund	3-Yr Avg	Category	Proxy
1 to 3	19.3	—	14.0	—
3 to 5	17.1	—	31.2	—
5 to 7	26.9	—	12.2	—
7 to 10	5.8	—	14.1	—
10 to 15	6.0	—	5.6	—
15 to 20	0.0	—	3.9	—
20 to 30	2.0	—	1.0	—
Over 30	1.7	—	0.4	—

Coupon Range 31/05/19



Coupon Range	Fund	3-Yr Avg	Category	Proxy
0% or Paid In Kind	0.0	—	0.5	—
0 to 2	3.2	—	7.8	—
2 to 4	50.5	—	53.5	—
4 to 6	31.6	—	28.7	—
6 to 8	2.8	—	1.7	—
8 to 10	0.3	—	0.3	—
More than 10	0.0	—	0.0	—

Portfolio Holdings 31/05/19

Bond Holdings	Equity Holdings	Other Holdings	Assets in Top 10 Holdings	Turnover Ratio (Reported)
148	0	9	18%	55%

Top 10 Fixed Income Holdings	Country	Currency	Assets %	Super Sector	Primary Sector	Secondary Sector
New Zealand Local Government Funding Agency Ltd 0.03%	NZL	NZD	7.06	Government	Government Related	Agency/Quasi Agency
New Zealand Local Government Funding Agency Ltd 0.04%	NZL	NZD	4.86	Government	Government Related	Agency/Quasi Agency
New Zealand Local Government Funding Agency Ltd 0.04%	NZL	NZD	3.03	Government	Government Related	Agency/Quasi Agency
New Zealand (Government Of) 0.02%	NZL	NZD	3.02	Government	Government	Inflation Protected
Dunedin City Treasury Limited 0.04%	NZL	NZD	2.78	Government	Government Related	Agency/Quasi Agency
Auckland Council 0.04%	NZL	NZD	2.28	Government	Government Related	Agency/Quasi Agency
ASB Bank Limited 0.03%	NZL	NZD	2.05	Corporate	Corporate Bond	Unspecified
Westpac New Zealand Limited 0.04%	NZL	NZD	1.90	Corporate	Corporate Bond	Financial Services
ASB Bank Limited 0.04%	NZL	NZD	1.82	Corporate	Corporate Bond	Financial Services
Bank of New Zealand 0.04%	NZL	NZD	1.62	Corporate	Corporate Bond	Unspecified

Harbour NZ Corporate Bond

23602

Morningstar Analyst Rating
Neutral

Performance

Morningstar Category
NZ Bonds

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

Reasonable, though has struggled to match its internal hurdle.

Performance Pillar ● Neutral

May 16, 2019 | Harbour NZ Corporate Bond has attained reasonable results compared with the broader NZ bond cohort, but has consistently lagged its own hurdle, the S&P/NZX NZ Corporate A-Grade Index. 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 strategy 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 recorded a small gain. However, Harbour

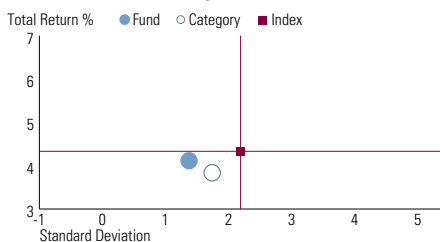
has trailed the S&P/NZX NZ Corporate A-Grade Index consistently since and through to early 2019, after accounting for fees. The team has not been able to generate meaningful excess returns through stock selection or active interest rate management to overcome the fee drag. The relatively concentrated New Zealand corporate credit universe has not helped in this regard.

Morningstar Rating and Risk 31/05/19

Period	Total Ret %	Morningstar Ret vs Cat	Morningstar Risk vs Cat	Morningstar Rating
3 Years	4.11	Avg	Below Avg	★★★
5 Years	4.86	Avg	Below Avg	★★★
10 Years	5.46	Avg	Below Avg	★★★★
Overall Morningstar Rating				★★★★

Risk Analysis 31/05/19

3-Year Return and Risk Analysis



3-Year Risk Measures

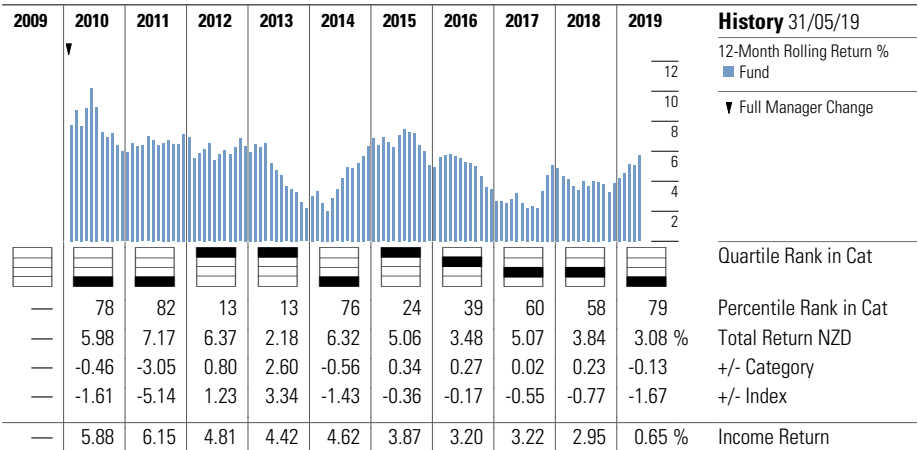
	Fund	Category	Index
Standard Deviation	1.37	1.74	2.19
Sharpe Ratio	1.67	1.24	—
R-Squared	92.46	86.62	—
Beta	0.60	0.75	—
Alpha	0.78	0.13	—

Max Drawdown 01/06/09 to 31/05/19

	Fund	Category	Index
Max Drawdown (%)	-1.55	-3.21	-3.83
Peak Date	10/16	05/13	05/13
Valley Date	12/16	08/13	08/13
Max Drawdown (Months)	3	4	4

Upside/Downside 01/03/09 to 31/05/19

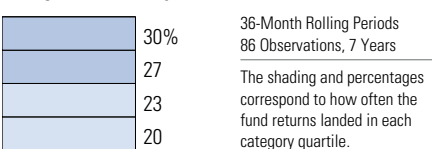
	Fund	Category	Index
Upside Capture Ratio	79.70	87.76	100.00
Downside Capture Ratio	10.82	81.13	100.00



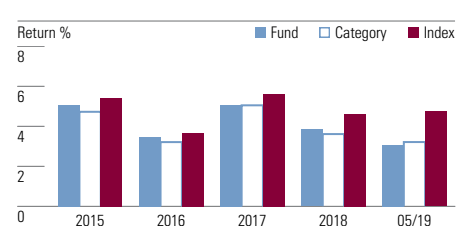
Returns 31/05/19

	Total Ret %	Investor Ret %	% Rank in Cat	Cat Ret %	Index Ret %
1 Year	5.72	5.73	72	5.92	7.79
3 Years	4.11	4.20	34	3.84	4.33
5 Years	4.86	4.75	63	4.80	5.78
10 Years	5.46	4.96	38	5.10	5.84
Tenure 01/10	5.15	—	—	5.04	5.77
Inception 01/09	5.31	—	—	4.86	5.34

Rolling Return Summary



Calendar Year Returns



Year	Fund %	Category %	Index %
2015	5.06	4.73	5.42
2016	3.48	3.21	3.65
2017	5.07	5.05	5.62
2018	3.84	3.61	4.61
05/19	3.08	3.21	4.75

Harbour NZ Corporate Bond

23602

Morningstar Analyst Rating
Neutral

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

+ Positive

May 16, 2019 | 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. Brown 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.

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 multiasset 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. 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	9.42 Years

Advisor

Harbour Asset Management Limited

Subadvisor (0 of 0)**Mark Brown** 01/10 to Present

Years of Experience	Current Funds Managed	Fund AUM
9	2	566 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	Lead	391	45	5.15	5.77
Harbour NZ Core Fixed Interest	05/11-to Present	Lead	175	350	4.91	5.25

Harbour NZ Corporate Bond

23602

Morningstar Analyst Rating
Neutral

Parent

Morningstar Category
 NZ Bonds

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

A strong and steady steward.

Parent Pillar

 Positive

Feb 25, 2019 | Harbour Asset Management is a boutique equities and fixed-interest investment house that has evolved from Alliance Bernstein. As at 31 December 2018, the shop managed NZD 4.2 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 rollout. FNZC 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 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 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	391.0	★★★★	4.11	34	4.86	63	—
Harbour Australasian Equity	Equity Region Australasia	276.2	★★★★	14.95	10	14.42	18	—
Harbour NZ Equity Advanced Beta Fund	Equity Region NZ	207.4	★★	13.61	83	—	—	—
Harbour NZ Core Fixed Interest	NZ Bonds	175.2	★★★	3.96	49	5.02	56	—
Harbour Income	Multisector - Moderate	94.3	★★★	5.12	37	—	—	—

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	276.2	★★★★	14.95	10	14.42	18	—
Harbour Australasian Equity Focus Fund	Equity Region Australasia	20.7	★★★	14.55	20	13.55	39	—
Harbour NZ Corporate Bond	NZ Bonds	391.0	★★★★	4.11	34	4.86	63	—
Harbour Income	Multisector - Moderate	94.3	★★★	5.12	37	—	—	—
Harbour NZ Core Fixed Interest	NZ Bonds	175.2	★★★	3.96	49	5.02	56	—

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	39.6	★★	7.05	85	9.97	75	—
Harbour NZ Equity Advanced Beta Fund	Equity Region NZ	207.4	★★	13.61	83	—	—	—
Harbour NZ Core Fixed Interest	NZ Bonds	175.2	★★★	3.96	49	5.02	56	—
Harbour Income	Multisector - Moderate	94.3	★★★	5.12	37	—	—	—
Harbour NZ Corporate Bond	NZ Bonds	391.0	★★★★	4.11	34	4.86	63	—

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	276.2	 Gold	14.95	10	14.42	18	—
Harbour NZ Core Fixed Interest	NZ Bonds	175.2	 Bronze	3.96	49	5.02	56	—
Harbour Australasian Equity Income	Equity Region Australasia	39.6	 Bronze	7.05	85	9.97	75	—
Harbour NZ Corporate Bond	NZ Bonds	391.0	Neutral	4.11	34	4.86	63	—

Most Recent Fund Launches	Category Name	Net Assets Mil NZD	Inception Date	Total Return % Since Inception	MER	Fee Level
Harbour Long Short	Miscellaneous	1.6	2019-01-01	—	1.43	—
Harbour Real Estate Investment	Equity Sector NZ - Real Estate	6.4	2018-10-01	21.67	0.72	—
Harbour Income	Multisector - Moderate	94.3	2015-10-21	5.41	0.63	—
Harbour NZ Equity Advanced Beta Fund	Equity Region NZ	207.4	2014-12-03	13.81	—	—
Harbour Australasian Equity Focus Fund	Equity Region Australasia	20.7	2014-03-05	12.82	2.13	—

Harbour NZ Corporate Bond

23602

Morningstar Analyst Rating
Neutral

Price

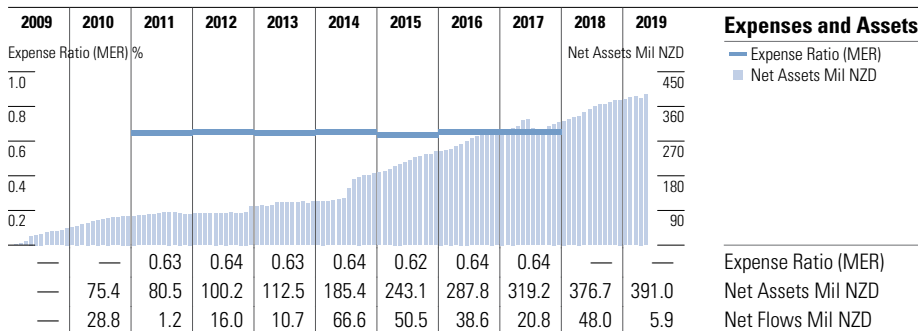
Morningstar Category
NZ Bonds

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

A fair price.

Price Pillar ● Neutral

May 16, 2019 | Harbour New Zealand Corporate Bond has an annual management fee of 0.60%, while its total expense ratio was 0.63% for the financial year ended 31 March 2019. This isn't expensive, though may be a drag given the relatively constrained universe.



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	0.64
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)	1.130

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	391.32	32.07

Morningstar Global Fund Report Disclosure

Currency

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