

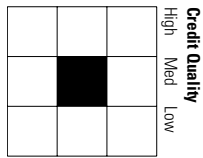
# Harbour NZ Corporate Bond

## 23602

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

<b>Morningstar Category</b> NZ Bonds	<b>Category Index</b> S&P/NZX NZ Composite Invest Grade NZD	<b>Total Assets</b> 439 Mil NZD	<b>Inception Date</b> 22/01/09	<b>Domicile/Currency</b> NZL/NZD	<b>Morningstar Rating</b> ★★★
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### Fixed Income Style



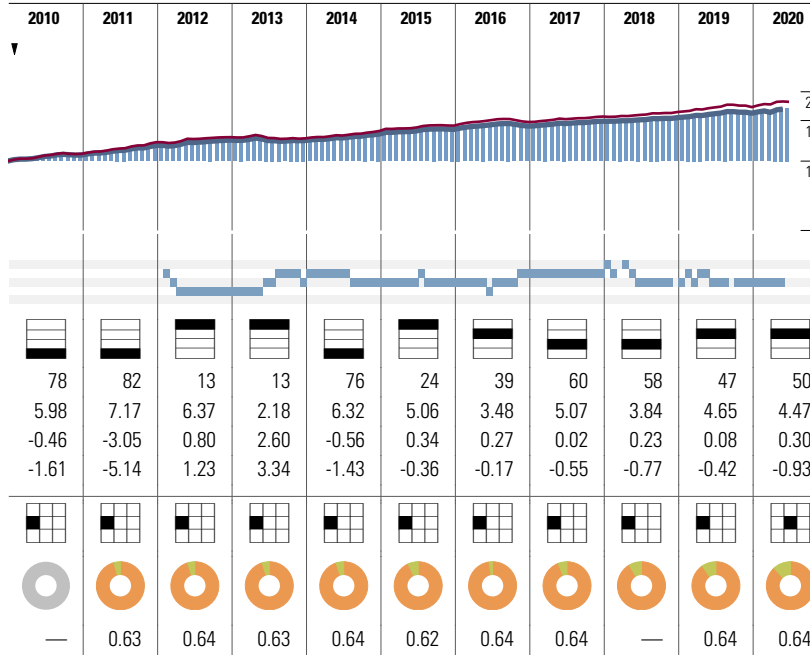
Interest Rate Sensitivity

### Style Box Factors

<b>Credit Quality</b>	Fund
Average Credit Quality	A
Investment Grade %	97.9
Below Invest Grade %	0.0
<b>Interest Rate Sensitivity</b>	
Avg Effective Duration	3.7
Avg Modified Duration	3.7
Avg Effective Maturity	4.3

### People

Mark Brown	01/10
Total Named Managers	1



**Performance 30/06/20**

Growth of 10,000 Annualized NZD	Value NZD	Ret %
Fund	17,019	5.20
Category	—	—
Index	18,084	5.81

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)

## We appreciate the fee cut, but this still tops out as an average choice.

### Analyst View

**Tim Wong, CFA, Director**

**Morningstar Analyst Rating** Neutral

### Morningstar Pillars

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

**Role in Portfolio:** Supporting Player

### 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 | A respected leader and fee reduction are welcome attributes, but the case for Harbour NZ Corporate Bond continues to be hamstrung by its narrow universe and mandate. Industry veteran Mark Brown took on the head of fixed-income role after co-founder Christian Hawkesby departed in March 2019. Hawkesby represents a meaningful loss, but Brown has decades of local fixed-interest experience, so we are confident he can do the job effectively. He is not alone here either. Simon Pannett is the key figure covering credit, seasoned bond manager George Henderson arrived in June 2018, and Hamish Pepper joined in July 2019 to fill a new strategist role to solidify market analysis. We appreciate the continued investment in the team here.

This looks to surpass the S&P/NZX NZ Corporate Bond A-Grade Index by evaluating macroeconomic conditions supplemented with security level credit research. Harbour sticks to high-quality NZD corporate-bond and local government authority exposure with minimal room for error. Credit research appears reasonable. More

important, we continue to question the lack of scope the team has in generating meaningful out-performance relative to its benchmark--the universe is narrow and the portfolio's duration sticks close to the index. Its index had fewer than 20 distinct issuers in June 2020, with about 60% held in the top three. We do acknowledge Harbour's ability to invest (modestly) off-benchmark and that it has fared reasonably against the broader New Zealand bond cohort, but this strategy has consistently fallen short of its performance objective after fees from 2014 to mid-2020, with security selection a negligible factor. Pleasingly, Harbour cut its fee to a relatively low 0.45% charge in 2019, though this move isn't sufficient to elevate this strategy above its cohort. Otherwise, this corporate bond portfolio should continue to fare respectably during periods of stress, given its relatively conservative operators. On balance, this portfolio's lack of separation from its investable universe leaves it short of better alternatives.

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## 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 ● Below Average

Jul 08, 2020 | 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.

#### Style Surveyed 30/04/20

##### Fixed Income Style Box

Credit Quality	History			Style	Bonds %
	Ltd	Mod	Ext		
High				■	88.1
Med	■			■	90.4
Low				■	91.5
				■	94.0
				■	97.7

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 %	97.9	97.2	100.0	—
Below Invest Grade %	0.0	0.0	0.0	—

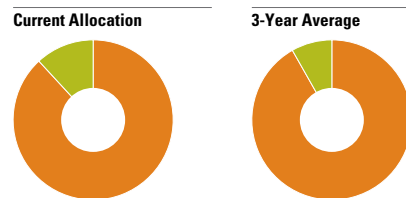
  

Interest Rate Sensitivity	Fund	3-Yr Avg	Category	Proxy
Avg Effective Duration	3.7	3.1	4.0	—
Avg Modified Duration	3.7	3.1	—	—
Avg Effective Maturity	4.3	3.8	3.8	—

#### Income Surveyed 30/04/20

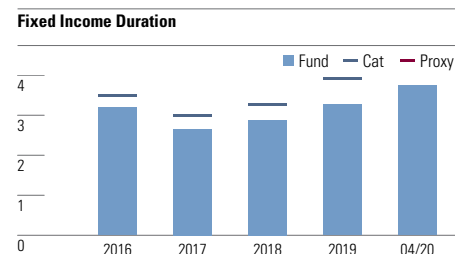
	Fund	3-Yr Avg	Category	Proxy
Average Coupon	2.5	3.0	3.1	—

#### 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	88.1	91.8	0.0	0.0
● International Fixed Income	0.0	0.0	0.0	0.0
● Cash	11.9	8.2	0.0	0.0
● Other	0.0	0.0	0.0	0.0

#### Duration Surveyed 30/04/20



Year	Fund	Category	Proxy
2016	3.19	3.47	—
2017	2.66	2.96	—
2018	2.88	3.23	—
2019	3.27	3.89	—
04/20	3.74	4.00	—

# 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**  
 —

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

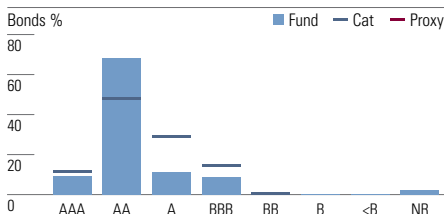
**Process Pillar** ● Below Average

Jul 08, 2020 | This portfolio invests primarily in New Zealand corporate bonds, a market that is 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 subordi-

ate 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 are 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

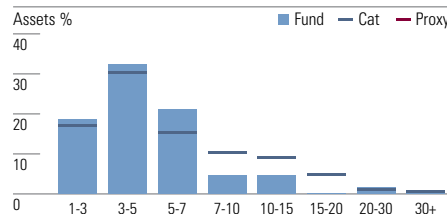
to financials. Non-NZD-denominated issues can be held on a currency-hedged basis. The focus on corporate credit means this strategy is best used as a supporting player within an investor's defensive allocation. It could be used to boost income generation. Especially for investors with a high allocation to equity, this should be paired with a more traditional fixed-interest fund. Harbour managed about NZD 431 million in April 2020.

#### Credit Quality Surveyed 30/04/20



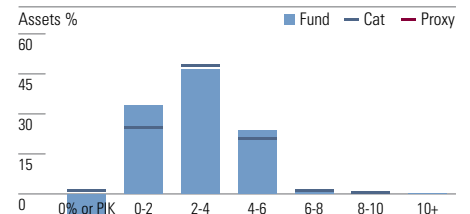
Credit Quality	Fund	3-Yr Avg	Category	Proxy
AAA	9.5	12.6	10.7	—
AA	68.3	58.9	47.2	—
A	11.2	15.4	28.4	—
BBB	8.9	10.3	13.7	—
BB	0.0	0.0	0.0	—
B	0.0	0.0	0.0	—
Below B	0.0	0.0	0.0	—
Not Rated	2.1	2.9	0.0	—

#### Maturity Schedule 30/04/20



Maturity (Years)	Fund	3-Yr Avg	Category	Proxy
1 to 3	18.7	—	16.8	—
3 to 5	32.3	—	30.1	—
5 to 7	21.2	—	14.9	—
7 to 10	4.7	—	9.9	—
10 to 15	4.6	—	8.7	—
15 to 20	0.0	—	4.5	—
20 to 30	1.7	—	0.9	—
Over 30	0.9	—	0.4	—

#### Coupon Range 30/04/20



Coupon Range	Fund	3-Yr Avg	Category	Proxy
0% or Paid In Kind	-17.0	—	0.8	—
0 to 2	33.2	—	24.3	—
2 to 4	46.5	—	47.6	—
4 to 6	23.8	—	20.3	—
6 to 8	1.1	—	0.9	—
8 to 10	0.0	—	0.2	—
More than 10	0.0	—	0.0	—

#### Portfolio Holdings 30/04/20

Bond Holdings	Equity Holdings	Other Holdings	Assets in Top 10 Holdings	Turnover Ratio (Reported)
146	0	10	14%	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	4.76	Government	Government Related	Agency/Quasi Agency
Housing New Zealand Limited 0.03%	NZL	NZD	3.34	Corporate	Corporate Bond	Real Estate
New Zealand Local Government Funding Agency Ltd 0.04%	NZL	NZD	2.91	Government	Government Related	Agency/Quasi Agency
Dunedin City Treasury Limited 0.04%	NZL	NZD	2.61	Government	Government Related	Agency/Quasi Agency
Landwirtschaftliche Rentenbank 0.05%	DEU	NZD	2.45	Government	Government Related	Agency/Quasi Agency
New Zealand (Government Of) 0.06%	NZL	NZD	2.38	Government	Government	Treasury
Bank of New Zealand 0.02%	NZL	NZD	2.32	Corporate	Corporate Bond	Financial Services
Auckland Council 0.04%	NZL	NZD	2.12	Government	Government Related	Agency/Quasi Agency
Housing New Zealand Limited 0.02%	NZL	NZD	2.04	Corporate	Corporate Bond	Real Estate
New Zealand Local Government Funding Agency Ltd 0.04%	NZL	NZD	2.03	Government	Government Related	Agency/Quasi Agency

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# Harbour NZ Corporate Bond

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## Performance

Morningstar Category  
NZ Bonds

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

**Has struggled to match its internal hurdle after fees.**

### Performance Pillar

Jul 08, 2020 | 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 is 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

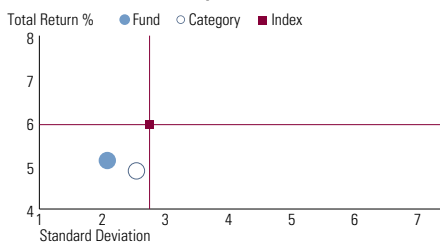
Index consistently since and through to April 2020, after accounting for fees. The team has not been able to generate meaningful excess returns through stock selection or active interest-rate management to overcome the fee drag, with security selection detracting modestly over the shorter term. The relatively concentrated New Zealand corporate credit universe has not helped in this regard.

### Morningstar Rating and Risk 30/06/20

Period	Total Ret %	Morningstar Ret vs Cat	Morningstar Risk vs Cat	Morningstar Rating
3 Years	5.12	Avg	Below Avg	★★★
5 Years	4.67	Avg	Below Avg	★★★
10 Years	5.08	Avg	Below Avg	★★★
Overall Morningstar Rating				★★★

### Risk Analysis 30/06/20

#### 3-Year Return and Risk Analysis



#### 3-Year Risk Measures

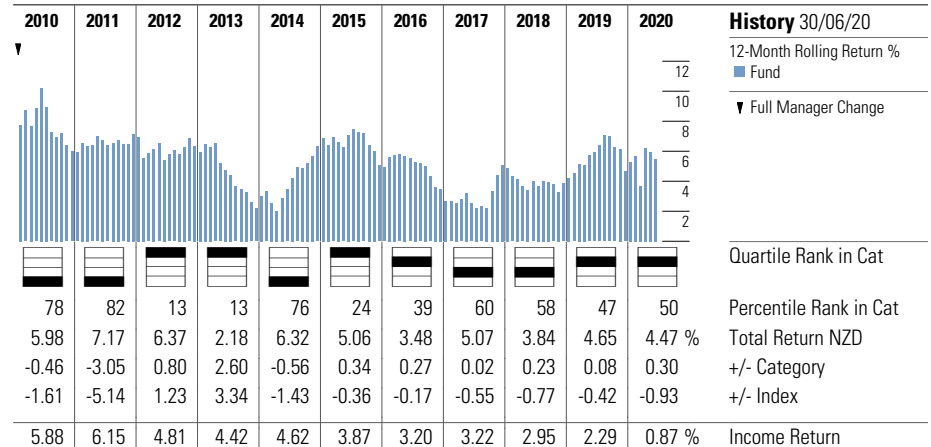
	Fund	Category	Index
Standard Deviation	2.08	2.54	2.75
Sharpe Ratio	1.74	1.34	—
R-Squared	85.63	77.60	—
Beta	0.70	0.82	—
Alpha	0.51	-0.20	—

#### Max Drawdown 01/07/10 to 30/06/20

	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 01/03/09 to 30/06/20

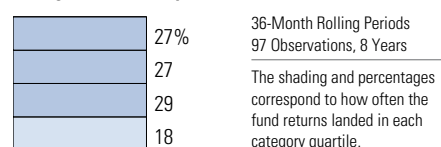
	Fund	Category	Index
Upside Capture Ratio	80.07	—	100.00
Downside Capture Ratio	19.95	—	100.00



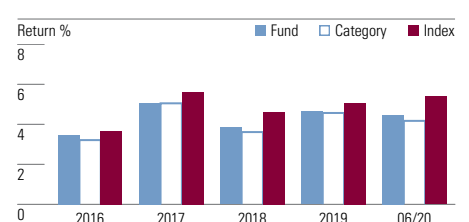
### Returns 30/06/20

	Total Ret %	Investor Ret %	% Rank in Cat	Cat Ret %	Index Ret %
1 Year	5.48	5.41	29	4.81	5.71
3 Years	5.12	5.15	57	4.88	5.95
5 Years	4.67	4.70	62	4.44	5.25
10 Years	5.08	4.95	48	4.86	5.51
Tenure 01/10	5.20	—	—	—	5.81
Inception 01/09	5.33	—	—	—	5.41

### Rolling Return Summary



### Calendar Year Returns



Year	Fund %	Category	Index %
2016	3.48	3.21	3.65
2017	5.07	5.05	5.62
2018	3.84	3.61	4.61
2019	4.65	4.57	5.06
06/20	4.47	4.17	5.40

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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	10.50 Years

#### Advisor

Harbour Asset Management Limited

#### Subadvisor (0 of 0)

#### Mark Brown 01/10 to Present

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

#### Largest Funds Managed

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

# Harbour NZ Corporate Bond

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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 Income	Multisector - Moderate	129.0	★★	4.65	70	—	—	—
Harbour NZ Core Fixed Interest	NZ Bonds	178.1	★★★	4.88	70	4.61	66	—

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 NZ Core Fixed Interest	NZ Bonds	178.1	★★★	4.88	70	4.61	66	—
Harbour Income	Multisector - Moderate	129.0	★★	4.65	70	—	—	—
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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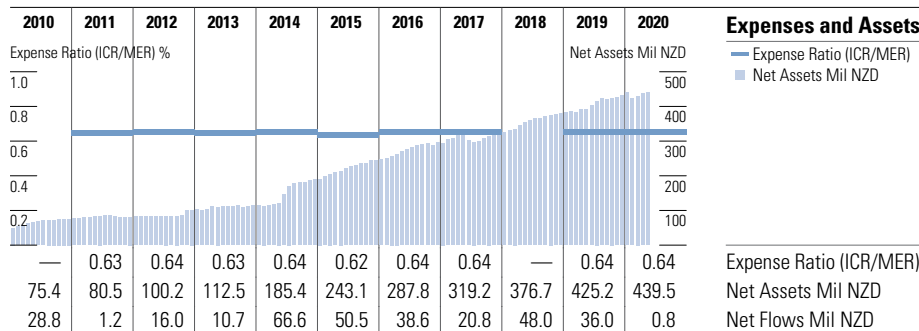
## Price

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. Even so, based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we don't think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Neutral.



### Expenses and Assets

Expense Ratio (ICR/MER)  
Net Assets Mil NZD

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

### Expense Breakdown

Management Expense Ratio (MER)	
Annual Report 31/03/20	0.64
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 Corporate Bond	—	NZ Bonds	—	0.64	0.54 —	25,000	440.22	32.14