



RESEARCH IP

## Qualitative Fund Research

Harbour Australasian Equity Focus Fund

11 May 2020



*The views and opinions in this document are considered valid from one year from the date published.*

## Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score	Maximum Factor Score
Corporate & Investment Governance	15%	4.50	/ 5
Investment Philosophy & Process	20%	4.40	/ 5
People	25%	4.67	/ 5
Portfolio Construction & Implementation	15%	4.00	/ 5
Risk Management	15%	4.20	/ 5
Investment Fees	10%	3.50	/ 5
<b>Overall Average Score</b>		<b>4.25</b>	<b>/ 5</b>

## What we look at?

The qualitative rating of a fund is a function of the Research IP Research Factor Weighting process, which incorporates the following:



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## Introduction

Harbour Asset Management Limited (Harbour, the Manager) formed in December 2009 and commenced operations on January 2010. Harbour is principally owned by Jarden Ltd (Jarden), at 76.3%, and the balance being owned by Harbour employees. Harbour states it is a well-resourced New Zealand based investment manager with extensive professional investment experience managing funds, further details of the Manager's core views are available [here](#).

Harbour has a group wide [investment philosophy](#), based around consistency, processes, and people. Harbour operates a [governance framework](#) that is overseen by an experienced Board which includes three independent directors. Harbour provides full transparency and independence around the investing and management of clients' money. Research IP views corporate citizenship and governance frameworks as extremely important foundations from which a manager starts to engage with the client experiences.

Harbour manages twelve retail funds, including:

- Harbour Australasian Equity Fund
- Harbour Income Fund
- Harbour Australasian Equity Income Fund
- [Harbour Australasian Equity Focus Fund](#)
- Harbour New Zealand Equity Advanced Beta Fund
- Harbour NZ Core Fixed Interest Fund
- Harbour Corporate Bond Fund
- Harbour T. Rowe Price Global Equity Growth Fund
- Harbour Real Estate Investment Fund
- Harbour Long Short Fund
- Harbour Active Growth Fund
- Harbour Enhanced Cash Fund

The funds above are managed by a team of 13 in total, of which eight manage the equity funds. The equity team comprises four Portfolio Managers, who have analyst responsibilities and are well supported by four dedicated analysts. The operations team consists of three people, and in some cases, shares resources with majority shareholder Jarden. Individual bios on the team at Harbour can be found [here](#).

## Meet the Manager



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## Key Takeouts

This is General Advice only and should be read in conjunction with the Disclaimers, Disclosures and Warnings at the end of this document.

### Harbour Australasian Equity Focus Fund – Research IP Quantitative Tear Sheet

<https://platform.research-ip.com/funds/68263161>

Note: FREE to access via registration, updated monthly including performance.

[Factsheet](#)

[Report](#)

[PDS](#)

[Articles / Views](#)

### The Fund

Objectives	Harbour Australasian Equity Focus Fund
Investment Objectives	To deliver medium to long term capital growth by investing in quality businesses with strong growth prospects. The Fund is benchmark-agnostic, that is driven by stock characteristics rather than the benchmark weightings.
Benchmark	50% S&P/NZX 50 / 50% S&P/ASX 200 Index (50% hedged into NZ dollars)
Alpha Objective	Outperform over rolling three-year periods
Management Fee	0.94% management fee (GST exclusive)
Performance Fee	Performance Fee - 10% p.a. Hurdle – 1% p.a. over the Benchmark Net/Gross – performance fee calculated on gross out performance High Water Mark (HWM) - Yes – perpetual HWM Frequency – calculated daily, paid annually Maximum limit - Outperformance is capped at 10%, i.e. there will be no performance fee chargeable for outperformance of more than 10% above the benchmark.
Estimate of Total Fund Charges	1.19% (ex GST) - 2 March 2020
Minimum Timeframe	Medium to long term investment horizon. Minimum 5 years
Portfolio Structure	Portfolio Investment Entity (PIE)
Distributions	The Fund does not intend to pay any dividends, with income generated in the fund reflected in the unit price.
Strategy Inception	10 April 2014

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The Harbour Australasian Equity Focus Fund (“the Fund”) is benchmark unaware. The weighting to individual securities within the Fund is not made with reference to any benchmark.

Factor	Lower Limit	Upper Limit
Tracking Error		n/a
Cash Allocation	0%	35%
Single Stock Limit	0%	15%
Sector Limits		n/a
Number of stocks	15	25
Australasian Equities	65%	100%
Unlisted Australasian Equities	0%	4%
Currency Hedging	0%	100%

Due to the relatively concentrated portfolio, individual stock positions are likely to have a significant impact on the overall return of the portfolio, especially over shorter time periods (e.g. one year).

The Portfolio Manager has absolute discretion to invest across what are relatively wide allocation limits. The Fund has size restrictions built around the market capitalisation of a company, to manage risk. This is in spite of the Fund being benchmark unaware. The methodical approach to risk management is reflective of the Manager’s complete process to investing client money. The Portfolio Manager leverages the analyst team to identify conviction in companies, that might be suitable for the portfolio.

Cash is a result of reduced opportunity offered by companies, rather than a conscious asset allocation decision. Hedging reflects the Manager’s views around country, sector, and company specific factors. Changes in hedging are likely to be significant, that is 5-10% steps or greater, rather than small incremental changes. Currency is managed at the portfolio level rather than at an individual stock level.

The Fund’s flexibility is expected to result in the return of the Fund differing significantly from that of the Manager’s chosen benchmark. Accordingly, investors seeking a benchmark-like return may not be suited to the Fund.

## Funds Under Management (FUM)

FUM	Harbour Australasian Equity Focus Fund
Fund	\$15m
Strategy	\$100m
Sector	\$2,782m
Manager (Australasia)	\$5,018m
Manager (Total Global)	\$5,018m
Manager comment	

\*at 29 February 2020

## The Risks

The Manager is aware of the broad range of risks, as identified in the [Product Disclosure Statement \(PDS\)](#), and is mindful of them when constructing and managing the portfolio.

Given the relatively concentrated number of stocks in the portfolio, and potential for a single position to be a significant proportion of the Fund, stock specific risk is higher than other Harbour equity funds. The Fund is likely to take significant sector bets, relative to the underlying indices.

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Research IP notes the Fund's volatility is higher than the sector peer average. Which is in part expected due to the Fund's concentrated portfolio.

## Using this Fund

The Fund is a 'long only' high conviction Trans-Tasman equity product which will generally sit as a satellite holding within the growth component of a balanced portfolio.

The Fund has the flexibility to hold material positions ranging from 65% - 100% in Australasian equities, and up to 35% in cash. The Fund's asset allocation decisions can have a material impact on performance, as well as security selection.

## What the manager says?

Insight	Manager view	Research IP opinion
<p><b>Who is accountable for managing the fund?</b></p> <p><b>Is the investment teams work history relevant to the funds they manage?</b></p>	<p>Shane Solly is the Portfolio Manager for the Harbour Australasian Equity Focus Fund. The broader Harbour investment team has worked together since Harbour's inception in December 2009 and earlier at AllianceBernstein NZ prior to the closure of their NZ business.</p>	<p>The Portfolio Manager Solly has a solid 28 years of industry experience, although a shorter manager tenure at 7 years. Solly has held responsibility for the Fund since commencing at Harbour Asset Management.</p> <p>While Solly carries accountability for the Fund, the full equity investment team provides analyst support. Ultimately this Fund leverages the best ideas of all Harbour equity funds.</p> <p>The tenure of the investment team is strong, with Andrew Bascand, Craig Stent, Oyvinn Rimer, and Kevin Bennett being at the Manager since commencement.</p> <p>Since commencing investment operations in 2010, the Manager has added resources, building out the team as required. The continual team development has seen new analyst additions on a consistent basis.</p> <p>Research IP notes that the Manager has one of the larger equity investment teams, and pleasingly continues to invest in the investment teams, and importantly the business. Research IP commends the Manager for looking beyond today, and investing for the future, including that of investors.</p>
<p><b>Has the CIO/ PM personally invested in the Fund? Are they paying the same fees as other investors?</b></p>	<p>The Portfolio Manager and a number of the analysts have a meaningful portion of their personal assets invested alongside clients on a full fee-paying basis. Each year a portion of the investment staff's discretionary pay is invested into Harbour Funds with a three-year vesting period.</p>	<p>Research IP believes that the interests of investment personnel are better aligned to those of the investors, when investment personnel are significantly invested, and at the same fees.</p>

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		<p>Research IP believes the vesting of discretionary remuneration of Harbour staff is a strong enhancement to the alignment with investors. Naturally Harbour staff want to maximise their outcomes, without excessive risk.</p> <p>Harbour also has the confidence to use this fund as an equities allocation in its diversified strategies.</p>
<p><b>Why would you allocate to this fund?</b></p>	<p>The Harbour Equity Focus Fund has the objective of generating medium to long term capital growth through the market cycle for investors, by investing in quality businesses with strong growth prospects with no particular attention to an equity benchmark. While the Fund is constructed on a benchmark agnostic basis (driven by stock characteristics, not the weightings in benchmark stock market indices) the Harbour Equity Focus Fund has an objective to out-perform a 50/50 S&amp;P NZX50/S&amp;P ASX200 reference benchmark over a rolling 3 year period. Academic research shows that, after careful research, investing in the quality growth companies the Harbour Equity Focus Fund invest in, is one of the best ways to grow wealth over time. The Harbour Equity Focus Fund also provides a useful investment option for those investors that want to invest in local shares, but want their investment determined by underlying stock investment characteristics rather than mechanistic benchmark stock index construction which reflects the biggest, but not always the best companies.</p>	<p>The Manager outlines its case as to <a href="#">why Harbour</a> should be considered by an investor. The Manager also provides a series of links that outline their set of core values. Harbour believes these factors differentiate them from peers, across their product suite. Research IP believes that in conjunction with a disciplined approach to investing, the Manager, presents a clear rationale as to why a potential investor should consider investing in this Fund.</p> <p>The Fund is a relatively concentrated portfolio comprising 15-25 companies and is unconstrained by a series of broad ranges across security size, sector and cash positions. Research IP believes the Fund is best used as a 'satellite' strategy, as the Fund may not provide a broad diversified exposure to the Australasian share market.</p> <p>The Fund is subject to equity market risk and movements (both positive and negative) in the share prices of the underlying securities in the portfolio. Accordingly, investors should therefore be aware that the Fund may experience periods of negative returns and that there is a risk of potential capital loss being incurred on their investment. The Fund is suited to higher risk profile investors with a minimum investment time frame of five years.</p>
<p><b>What are key factors in the buying and selling decisions of the Fund?</b></p>	<p>The portfolio invests in stocks Harbour's analysts have researched and have a high belief will perform over the medium to longer-term. A higher rated company will have a higher weighting in the portfolio. The key factors are the analyst's ratings and views on a particular stock alongside the quantitative filter which provides</p>	<p>Research IP observes the Manager's process is one of the more methodical, well structured, and consistently implemented. The Manager's process is underpinned by fundamental, bottom-up research. The Manager compliments this by its strong internal research, with some external research inputs. External sources</p>

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	<p>information signals on the investment positions. Harbour selects stocks for inclusion in Harbour Equity Focus Fund using its well established and proven investment process.</p> <p>The process begins with the quantitative filtering of factors that have historically been associated with growth driven performance. Data for a wide range of New Zealand and Australian companies are ranked considering:</p> <ul style="list-style-type: none"> <li>• key company specific growth factors,</li> <li>• underlying company financial quality, and</li> <li>• company Environmental, Social and Governance (ESG) practices.</li> </ul> <p>Based on regular, rigorous company and industry meetings Harbours analyst team rate each company. The combination of the quantitative filter and analyst rating results in a ranking of all stocks. From this process the Harbour Equity Focus Fund only invests in the Harbour investment teams 15-25 best research ideas.</p> <p>If a stock becomes a best research idea it is introduced. If a stock is no longer a best research idea it is removed from the portfolio. Stocks that are no longer expected to meet or exceed growth forecasts within a reasonable period of time will be exited from the portfolio. Stocks will also be replaced by other stocks which represent more compelling best research ideas based growth investments.</p>	<p>include sell-side brokers, independent research houses, as well as other data sources, although the Manager relies heavily on in-house investment models.</p> <p>The Manager's process blends academic research and practical insights, to develop what the Manager considers as its edge as a focused growth manager. Deep fundamental company research underpins each security in the portfolio.</p> <p>Short term fluctuations in stock prices may not impact the Manager's central long-term thesis on a company, and therefore may not result in any portfolio activity. Alternatively, the market can provide a catalyst to buy additional shares or take some profits and sell some shares. As this is a concentrated portfolio of 15-25 companies short term market volatility is likely to lead to potentially large variance in performance compared to the Fund's hybridised benchmark.</p> <p>Research IP notes that in spite of being a growth fund manager, the portfolio positions are typically longer term holdings at 3 years or more. The concentrated nature of the portfolio is not likely to provide an opportunity for the Manager to hide, should a company perform differently than expected.</p> <p>The Manager's fundamental bottom up process starts with a focused approach to quantitative filtering. This distils down to the three key factors that are company specific, rather than macro focused. It is the start of the company ranking process.</p> <p>The Manager is not a quantitative manager, as the analyst team undertakes significant and detailed qualitative reviews of all companies, which enables the Manager to understand the company and its growth prospects, prior to investing in them. The qualitative input results in analysts scoring a series of factors, leading to a qualitative ranking.</p> <p>Both quantitative and qualitative scores become a key component of the monitoring process. A deterioration of the company score will assist in the sell</p>

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		<p>decision process. Deterioration of key company scores will trigger a review, which can lead to reducing the position size or exiting the company.</p> <p>Given the Fund's relatively concentrated portfolio, analysts are required to hone down their coverage to the 2-3 best ideas, which will be considered for the Fund. Solly takes some guidance around portfolio construction from the Australasian Equity Fund. Research IP notes this Fund can take a different view to its more diversified sibling. The Manager can also hold cash if no opportunities can be identified, that is there is no padding out the number of companies in the portfolio.</p> <p>The Manager must critically evaluate each position regularly, and exit companies that have or are unlikely to meet expected growth expectations, or another company is expected to provide a better opportunity.</p> <p>Research IP believes fund positions will likely be present in the portfolio over the mid to long term, that is 3-5 years. Further to this, Research IP notes that the position size of existing portfolio holdings is likely to vary as the manager adds to companies they have growing conviction in, trim profits, or reduces exposure to, without exiting.</p> <p>Selling of stocks in the portfolio is a direct result of Harbour's proprietary scoring and stock ranking system. As a company falls from green, to amber to red sections of the stock scores the size of the position is reduced until it hits the lowest scoring or red section of the stock list. This is not a mandatory signal to sell, but portfolio holdings in the red section are typically turnaround stories where the Manager believes the company and its current pricing will improve, and the manager has sufficient conviction to invest early.</p>
<p><b>What are the key drivers of the Fund's performance and risk measures?</b></p>	<p>The fund is a high conviction, best research ideas portfolio which is generally fully invested in 15-25 higher growth New Zealand and Australian stocks (listed on the New Zealand or Australian Exchanges). The</p>	<p>The Fund's performance reporting is available via the <a href="#">Research IP Quantitative Tear Sheet</a>, on the <a href="#">Manager's website</a> and the <a href="#">Disclose website</a>. Highlighting the</p>

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	<p>fund invests in stocks that grow faster and/or for longer than the market expects. The fund is biased to stocks that benefit from secular trends such as rapid technology change, medical advancement, demographic change, urbanisation and the rise of sustainability.</p> <p>Inclusion of a stock and the proportion of the portfolio an individual stock represents in the portfolio is a function of Harbour's active research-driven investment process (including quantitative filtering and deep fundamental company analysis) and Harbour investment analyst conviction. The Fund's skew to growth stocks generates strong returns over the medium term. But there may be periods of time when growth stocks fall out of favour with the broader investment market, increasing Fund return risk. The Fund will actively take advantage of near-term mispricing of portfolio investments. The Fund will also hold cash and utilise currency management to generate returns.</p>	<p>Funds' performance over time and the volatility of that performance.</p> <p>This is a concentrated strategy and as such performance will be volatile over shorter periods. Over the longer term performance has been consistently ahead of the peer group, although recent performance while still strong in absolute terms has lagged peers slightly.</p> <p>Research IP believes the Funds' performance reflects Solly's security selection, and the Managers' growth style bias, while leveraging the input of the investment team and through the internal Investment Committee.</p>
<p><b>On what basis are the fees charged justified?</b></p>	<p>Harbour's fees are transparent. There are no buy/sell spreads or entry/exit fees. The Equity Focus Fund has a total fee (excluding GST) of 1.19% p.a. including investment management, Supervisor, legal and audit fees as well as the costs of unit pricing, investment accounting and custody.</p> <p>As stated in the PDS, Harbour may be entitled to a performance fee within the Equity Focus Fund, which would be paid annually, following 31 December, subject to outperforming the Fund's benchmark (50% S&amp;P NZX 50 Net Index and 50% S&amp;P/ASX 200 Index, hedged 50% to NZD) plus 1.00% and exceeding the funds perpetual high water mark. Outperformance is capped at 10% i.e. there will be no performance fee chargeable for outperformance of more than 10% above the benchmark.</p>	<p>The Funds' basic fee is in line with the sector peer average. The Fund is one of three Harbour funds to charge a performance fee, and one of the 10 funds in the Australasian equity sector to charge a performance fee. Detailed explanation relating to the performance fee can be found in the Other Material Information Documents. This is available on the <a href="#">Manager's website</a>, and the <a href="#">Disclose website</a>.</p> <p>Research IP believes that performance fees should only be charged when the base management fee is significantly below the sector peer average fee. Therefore, the total cost of this fund would be at the upper end of the peer group.</p> <p>Research IP notes the Fund has a capped performance fees, at 10% of the outperformance and an appropriate high water mark is used.</p> <p>Research IP highlights there should be a direct alignment between the manager's remuneration and the performance of the</p>

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		<p>Fund relative to its benchmark. This is the case for this Fund.</p> <p>Although no buy/sell spread is typically charged on this Fund, Harbour says that “in some market conditions, Harbour may apply a buy-sell spread to investments, withdrawals or switches in some Funds”. Harbour believes they can typically cross trades and therefore minimise transaction costs. Research IP notes that that this may not always the case and existing unit holders may incur the cost of transactions resulting from investors entering or exiting the funds.</p>
<p><b>Describe the quality of the organisational and investment governance processes?</b></p>	<p>At the organisational level, Harbour’s Board is led by an independent chair. Two other independents ensure client’s best interests are put first, including a former experienced Portfolio Manager who chairs the Audit &amp; Risk Committee.</p> <p>We have rigorous daily compliance procedures that ensure the portfolio is invested in adherence with its guidelines.</p> <p>We engage PWC to test the firm’s operational and compliance processes. This assesses tasks such as the handling of client funds, investment management processes, trade execution, segregation of duties etc. This is an external and independent assessment of our processes.</p> <p>Lastly, an internal risk committee periodically scrutinises the Portfolio Manager’s decision making and risk allocation.</p>	<p>The Manager has a strong governance structure which starts with the composition of the Board and leadership of key Board Committees. In addition to outsourcing some functions, there are sufficient internal operational personnel, which continues to grow. This ensures the investment team can concentrate on managing the portfolios, with appropriate oversight.</p> <p>The use of external directors for the Harbour Board is considered to be in line with industry best practice. The use of external non-executive directors is strong, this excludes those representing the major shareholder, Jarden. Research IP notes the use of independent members extends to Board delegated committees, and investment committees.</p> <p>Research IP considers the Head of Compliance reporting directly to the Board and Audit Committee as being in line with global best practice, which is not always the case in New Zealand.</p> <p>Harbour has a formal investment committee, which meets on a monthly basis. Research IP believes the structured investment committee formalises a process and provides oversight to the investment decisions.</p> <p>The Manager uses Bloomberg AIMS for pre and post trade compliance. This is used across all funds.</p>

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<p><b>Describe the Manager’s ESG, Corporate Sustainability policies and engagement.</b></p>	<p>Harbour integrates ESG analysis into its security selections processes. We conduct an annual corporate behaviour survey with potential equity investments. The results of this survey directly impact the weight a company is held in the portfolio, with strong corporate citizens being held at a higher weight than poorly behaving corporates. This, along with our engagement of companies, helps to drive better outcomes.</p> <p>In fixed interest securities where the risk profile is asymmetric (either you are paid back or the company defaults) we will simply not hold a company's debt if we believe its behaviour is egregious or it participates in a sector that makes investment untenable (examples include gaming). Harbour has been recognised for its ESG approach by strong scores by independent agencies UN PRI and RIAA.</p> <p>At Harbour, sustainability has been included in our key business objectives.</p>	<p>Research IP notes that Harbour have included <a href="#">Responsible-Investing</a> factors in their process since inception and is viewed positively. Notably Environmental (“E”) and Social (“S”) factors are treated differently to Governance (“G”). Governance is well established, the relationships between companies and the environmental and social aspects are less defined.</p> <p>The Manager’s internally developed ESG process is considered to be very robust and can be applied to a company, regardless of its domicile.</p> <p>Harbour is also a signatory to the UNPRI. Investors should be aware that ESG and the United Nations Principles of Responsible Investing (UNPRI) are relatively loose and that ESG integration has a broad range of interpretations.</p>
<p><b>Is there alignment with the interests of investors through ownership of the Manager and/or remuneration of the investment team?</b></p>	<p>Yes. The investment team invests alongside unitholders by personally owning units in the fund. In addition, the performance of the fund against its objectives influences investment team short and long term remuneration. A portion of the investment team’s discretionary remuneration is vested into Harbour funds over a period of three years. This discretionary pay is in turn determined by the Fund’s performance amongst other factors such as client satisfaction. Harbour is 24% owned by its employees. A long-term incentive scheme sees annual awards of further equity ownership for staff.</p>	<p>By being partially owned by its employees and directors, there is strong buy-in from the team to work hard for the firm's long-term success - this is good news for investors. The Manager’s continual development of and commitment to its staff is viewed as market leading.</p> <p>There is alignment between the bonus component of staff remuneration and the performance of the funds/portfolios. Research IP believes that Solly has a reasonable level of personal investment in the Fund, largely via vested short term incentives. This is viewed as a strong alignment to investor experience.</p> <p>Research IP highlights that Harbour’s vesting of short-term incentives (cash bonuses) in the Manager’s suite of funds is market leading from a New Zealand perspective. This brings enhanced staff tenure and alignment to the interests of investors.</p> <p>The support of largest shareholder, Jarden, is also significant, in both financial terms and operational support.</p>

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## About Research IP

Research IP has provided client focused qualitative and quantitative financial product and security research since 2015. Research IP was also the consultant to the NZX wholly owned subsidiary FundSource, providing investment research to the New Zealand market since 2015.

Research IP is a specialist investment research provider which is used and trusted by investors & financial advisers for investment, KiwiSaver, Superannuation and other Pension schemes throughout the Asia Pacific region.

Research IP has grown its team and footprint by utilising the specialist skills of its analysts which include;

- ❖ data scientists,
- ❖ equity, bond, and alternative asset specialists
- ❖ portfolio managers
- ❖ asset allocation analysts
- ❖ and ratings specialists.

Our experience has been gained in well over 20 years of roles across different facets of the industry, so we understand the key drivers and challenges for managers, as well as the impact for investors and the Financial Advice industry.

By leveraging the skills of specialists, Research IP is able to provide innovative and tailored financial services solutions to the marketplace. Client focused outcomes are underpinned by the belief that the role of business model innovation and accelerating technological change opens up new possibilities, to put client interests at the centre of the financial services industry focus. We have strong philosophical alignment with John Hagel's work on the possibilities for "Disruption by Trusted Advisors" and John Kay's views in "Other People's Money: Masters of the Universe or Servants of the People".

Research IP delivers high quality quantitative and qualitative fund research to financial advisers and the broader financial services industry. Research IP works with a number of expert providers to source this data. Quantitative data is supplied by a variety of sources, including directly from the Fund Manager, while qualitative research is provided by Research IP.

### Contact:

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