Harbour | ASSET MANAGEMENT

Sustainability Report 2021

Published July 2022

Kotahi te hoe, ka ū te waka ki uta

Paddling in unison, the waka will reach land

Message from the Managing Director

We are delighted to present Harbour's first annual Sustainability Report. This report is an evolution of our responsible investing dialogue with investors, who increasingly demand that their fund managers pay attention to non-financial risks and focus on Environmental, Social and Governance (ESG) aspects. Our goal is to publish and report openly on progress each year as we develop our approach to investing sustainably. We would welcome feedback on anything you believe we are missing in this year's report, which we could incorporate through time.

Harbour was an early signatory to the United Nations Principles of Responsible Investing in 2010, and each year our processes and activities adjust and grow as we learn more. There is no end in sight to developing meaningful insights on sustainable investing. This report highlights our ESG approach and key engagement outcomes with companies we invested in during 2021.

Our core equity investment approach generally has a bias towards healthcare and technology companies. As founders, it was in our nature to seek to allocate capital patiently to companies doing the right thing across both their investment decisions and for broader sustainability reasons. Good governance is often correlated with responsible investing.

We continue to invest in our research and team to incorporate more engagement with companies. Both our local fixed income and equity investment processes consider ESG matters alongside the case for generating investment returns. Our local Corporate Behaviour Survey, a proprietary tool which measures and evaluates ESG matters, has contributed to engagement across multiple issues, tackling climate change, diversity, inequality and wellness.

Our belief is that capital can be purposeful through integration and engagement. Being a meaningful shareholder means holding company management to account, and gives us a unique position to influence and encourage better behaviour.

Our key focus points for sustainable investing are to make measurable positive influence aligned with the UN Sustainable Development Goals (SDGs) which include climate, natural capital, resource sustainability, wellness, social inclusion, and thriving communities and infrastructure, while at the same time engaging with management and boards on core responsible investing matters such as governance, decarbonisation, and diversity.

2021 was a busy year in expanding our sustainable fund offerings for clients. In April we launched a **Sustainable NZ Shares** strategy which incorporates both exclusions and research for ESG factors.

In December 2021 we also launched a globally diversified **Sustainable Impact Fund** to both build on our experience and learn from the best global practitioners of impact investing.

The fund not only incorporates the responsible investing practices we have built on over the last decade, it moves forward with the purpose of allocating capital to deliver strong investment returns and aligning our investment with the UN SDGs. In this Fund we utilise the skills of large global investment managers Mirova and T. Rowe Price, together with the local expertise of venture capital specialist Icehouse. We combine these external best practice impact investors with our own engagement and integration skills.

We believe strongly in engagement. Exclusions may be an important element, and nice to have, but the social license to operate must now reflect influencing and monitoring how capital impacts on ESG issues.

Sustainability starts at home

Our Footprint team at Harbour work closely with Harbour's management team and Board to align our values with sustainable practices and ensure that we hold ourselves to the same rigorous standards we hold others to. Small steps often provide the path to broader engagement. At Harbour we have mapped our part in climate action through our net zero carbon initiative, our carbon footprint measurement of all Harbour equity funds and more recently our commitment to a strengthened 1.5°C aligned interim target across our business for achieving net zero by 2050. We have continued with our long-term support for Roots of Empathy, funding in New Zealand schools to teach emotional literacy and heal violence and bullying.

This further alignment with sustainable investing practices is another step that we hope enhances the transparency of our sustainability journey.

Ngā mihi nui

Andrew Bascand
Managing Director

How does Harbour address climate change?

TOITŪ
NET CARBON ZERO
ISO 14064-1 ORGANISATION

1. **First** by integrating sustainable principles into the firm's core objectives, which all staff are measured against and expected to contribute to.

2. **Second** by walking the talk – we are a certified Toitū net carbonzero business and have clear targets for climate mitigation in line with the 1.5°c challenge. Our carbon credits are sourced via an emissions avoidance project which converts traditional coal fired stoves into sustainable waste gas from rubbish dumps for housing and small businesses.

3. **Third** through our investment process, being purposeful with company engagement and moving capital. A good recent example is our cornerstone positioning in the equity raising by Contact Energy to build Tauhara the 150mW development of geothermal energy that will be part of the story to replace coal and other fossil fuels.

The 1.5°C challenge is an ambitious climate change target which seeks to limit global warming to 1.5 degrees Celsius above pre-industrial levels. In the 2015 Paris Agreement nations including New Zealand pledged to meet a target of 2°C and to "pursue efforts" to keep the global temperature increase at 1.5°.

Contents

Part One:
2021 Sustainable investing update

A TIMELINE OF ESG INVESTING AT HARBOUR

2009
Harbour founded, Corporate Behaviour Survey tool developed

2010
Became UNPRI and CDP signatories and member of the NZ Corporate Governance Forum

2014
ESG analyst hired (Blaine Abraham)

2017
ESG Policy published

2018
Became member of RIAA

2019
Internship, Laura Albiston undertook carbon research project

2020
Internship, Selina Chan undertook EV research project

2020
Full time ESG manager resource (Jorge Waayman) allocated

2020-2021
Internship, Purvai Gupta undertook social ESG research project

April 2021
Sustainable NZ Shares Fund launched

June 2021
Harbour Australasian Equity Fund endorsed as Mindful Fund

September 2021
Became a member of the Centre for Sustainable Finance Investment Implementation Group

Dec 2021
Sustainable Impact Fund launched

2021 AWARDS, CERTIFICATIONS AND RECOGNITION

Mindful Money Inaugural Awards

"Harbour Asset Management was the winner of the Most Ethical Retail Investment provider. The judges were particularly impressed by Harbour's strong research capability and analysis of Australian and New Zealand companies. They have demonstrated in-depth engagement with companies, with examples of how they have helped to improve social, environmental and governance performance."

– MINDFUL MONEY

Harbour Asset Management
Winner: Best Ethical Retail Investment Fund Provider 2021

Harbour named RIAA Responsible Investment Leader in their 2021 report

"Harbour Asset Management is recognised as a Responsible Investment Leader 2021 by the Responsible Investment Association Australasia (RIAA). This acknowledges our commitment to responsible investing, our explicit consideration of environmental, social and governance factors in investment decision making, our strong and collaborative stewardship, and our transparency in reporting activity, including the societal and environmental outcomes being achieved."

Responsible Investment Association Australasia certification

The Harbour Australasian Equity Fund, Harbour Australasian Equity Focus Fund and Harbour Sustainable NZ Shares Fund have been certified by RIAA, according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. The Certification Symbol signifies that an investment product or service has implemented an investment style and process that takes into account environmental, social, governance or ethical considerations.

The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. For more information see www.responsibleinvestment.org/.

Principles of Responsible Investing (PRI) Assessment Report:

A snapshot of the latest PRI review of our responsible investment practices is provided below. Harbour's full transparency report is available on the PRI website.

Note: These scores relate to information submitted for the 2020 reporting period given delays in the 2021 reporting cycle.

Summary Scorecard

AUM	MODULE NAME	YOUR SCORE	Median Score
	01. Strategy & Governance	A+	A

AUM	MODULE NAME	YOUR SCORE	Median Score
>50%	10. Listed Equity – Incorporation	A	A
>50%	11. Listed Equity – Active Ownership	A	B
10-50%	12. Fixed Income – SSA	B	B
10-50%	13. Fixed Income – Corporate Financial	B	B
10-50%	14. Fixed Income – Corporate Non-Financial	B	B

Your Score Median Score

OUR FUNDS IN 2021

Specialist sustainability funds

In 2021 we launched two funds with specific sustainability focuses.

Harbour Sustainable Impact Fund

The Fund provides exposure to a mix of domestic and global investments with a focus on the positive impact that these investments will have on various objectives linked to the UN Sustainable Development Goals.

While the Fund has been designed to have a lower carbon footprint than the market benchmark, any carbon contained in the Fund is offset by Harbour, through investment in projects which actively prevent carbon release and contribute to multiple UN Sustainable Development Goals.

The Fund invests approximately 20% in domestic impact equities and approx. 40% in domestic impact fixed interest, managed by Harbour. Additionally, approx. 35% in global impact equities and 5% in impact private equity will be managed by sector specialist managers.

Harbour Sustainable NZ Shares Fund

This Fund is designed to track the S&P/NZX50 Portfolio Index, with exclusions to companies that are exposed to large carbon emitters, alcohol, gambling, munitions, adult entertainment, nuclear armaments, firearms, tobacco and recreational cannabis, child labour and companies with human and animal right violations. There will also be positive and negative tilts to the remaining companies based on Harbour's proprietary Corporate Behaviour Score, which has been a core part of Harbour's equity investment processes for over a decade.

Harbour Sustainable NZ Shares Fund

INTEGRATION AND EXTRA EXCLUSIONS

Harbour Sustainable Impact Fund

IMPACT, INTEGRATION AND EXTRA EXCLUSIONS

Core Australasian equity funds

Harbour uses quantitative screens in its investment process to rank investment opportunities.

Harbour's ESG score is included in all Harbour equity funds' active quantitative screens along with other fundamental and quantitative factors in the investment process. All other things being equal, a higher ESG score results in a better overall security ranking. These rankings are categorised into deciles that are further filtered into a traffic light classification where the top three deciles are the 'green zone' and the bottom three are the 'red zone'. Portfolio Managers tend to select and overweight securities in the green zone and avoid/underweight companies in the red zone.

Securities are not excluded solely based on ESG scores. High risk ESG issues within companies, or issues of concern, are discussed between analysts and portfolio managers during the selection process. Companies with poor ESG scores are engaged where appropriate, to encourage the improvement of corporate behaviour.

Harbour Australasian Equity Fund

Harbour Australasian Equity Income Fund

Harbour Australasian Equity Focus Fund

Harbour Long Short Fund

Harbour Real Estate Fund

INTEGRATION AND BASE EXCLUSIONS

Harbour NZ Index Shares Fund

N/A – PASSIVE FUND

Core NZ Fixed Interest Funds

Harbour's Fixed Interest team utilises both the Harbour Corporate Behaviour Survey and MSCI research, in addition to conducting its own ESG research into unlisted bond issuers. The team uses this research to both engage with companies, and also identify companies whose behaviour may lead to untenable risks.

As for the equity process, the fixed interest process goes beyond just setting exclusions based on moral judgements on industries and assesses a company's behaviour and conduct relating to ESG considerations, and whether they are on a committed path to improvement.

This is done through systematic sector-by-sector meetings by the team to evaluate each issuer's management on E, S and G.

This process leads to a three-tiered classification system where securities are either favoured, neutral or avoided in portfolios. Neutral and avoided issuers are still engaged to promote improved behaviour.

Harbour Enhanced Cash Fund
Harbour NZ Core Fixed Interest Fund
Harbour NZ Corporate Bond Fund

INTEGRATION AND BASE EXCLUSIONS

Multi asset funds

Multi-asset funds are a combination of Australasian investments managed by the Harbour team, and externally managed funds. This means that our multi-asset funds combine the approaches we have described for externally managed funds and internally managed Australasian equities and fixed interest where applicable.

Harbour Income Fund
Harbour Active Growth Fund

INTEGRATION AND BASE EXCLUSIONS

Externally managed funds

External managers are used for our global equities fund (T. Rowe Price), and our global fixed interest fund (branded Hunter, PIMCO being the underlying manager). External managers, at a minimum, must meet two thresholds:

1. Must be a signatory to the PRI. We review the outcomes of their PRI assessments.

2. Satisfy us during the due diligence process that they meaningfully integrate ESG into their investment decision making process

On an ongoing basis we also:

1. Undertake independent carbon footprint analysis of external equity managers to measure the carbon intensity of their portfolio relative to the benchmark. Adverse results are raised with the manager in the first instance.

2. Engage with their responsible investment team to share our views of best practice and identify areas for improvement. Like Harbour, all external managers have proxy voting policies and are active owners. They all provide us with regular reporting on votes with and against management. The results of this show a strong depth of challenge to management voting.

Harbour T. Rowe Price Global Equity Fund
Harbour T. Rowe Price Global Equity Fund (Hedged)
Hunter Global Fixed Interest Fund

EXTERNAL

Base Exclusions

In all Harbour funds, we screen for a base level of exclusions, for industries or sectors which we believe cause significant societal or environmental harm.

Harbour believes in applying an integrative approach emphasising active ownership through engagement as a better way to influence changes in corporate behaviour rather than only negative screening. However, we have set a baseline standard of responsible behaviour to exclude companies involved in some of the most controversial business activities likely to lead to significant harm in society.

Therefore, in 2021 we did not invest in companies that to our knowledge derived any revenue from the:

- manufacture of tobacco
- manufacture or testing of nuclear explosive devices
- manufacture or sale of cluster munitions
- manufacture or sale of anti-personnel mines
- manufacture or sale of recreational cannabis
- production of pornography
- manufacture or sale of civilian automatic and semi-automatic firearms, magazines or parts

Harbour utilises an external ESG provider (currently ISS ESG) to provide screening services to ensure the active monitoring and compliance of these exclusions. These services allow us to distinguish between the type and extent of business involvement i.e. manufacturing vs. distribution/sales and determine the revenue exposure. In addition, the excluded list of securities is coded into our compliance system as restricted securities for an extra layer of robustness, thereby preventing their inclusion.

ENGAGEMENT AND ACTIVE OWNERSHIP UPDATE

Our engagement over 2021 continued to focus on key themes such as climate change and labour practices throughout the entire supply chain, as well as a greater emphasis on positive sustainability outcomes. Climate change remained front of mind with the global COP26 summit as well as our domestic Climate Change Commission issuing their advice to Government. The latter particularly drove our climate-related engagement given the sector-specific impacts implied by the policy recommendations.

On the social side, we engaged companies on the welfare of their employees, especially when we observed health and safety incidents or higher injury frequency rates. We also continued to discuss modern slavery risks and company responses following our in-depth research project on the issue.

Another aspect receiving greater attention is the shift towards investing for positive sustainability outcomes. This has been driven by the need to finance solutions for key environmental and social problems with important frameworks in place to promote this such as the SDGs and the Sustainable Finance Forum's 2030 Roadmap for Action. These have influenced our strategy to increasingly align our existing investments with these goals, as well as launching a new impact-specific fund that involves deep engagement with issuers that meet the eligibility criteria to ensure an active contribution to sustainable outcomes.

Our engagement strategy also continued to capture companies with contentious ESG issues such as Board composition and executive/director remuneration particularly around company AGMs. Executive remuneration has been especially controversial over the past two years given the wide range of financial outcomes observed due to COVID-related disruption, and the differing approaches companies have adopted to compensate management.

These targeted engagements supplemented the general ESG engagement we conduct across our whole NZ investment universe each year as part of our Corporate Behaviour Survey process.
The Corporate Behaviour Survey is our primary tool to comprehensively assess how well each company in our NZ investment universe is addressing ESG considerations with engagement playing a key part.

Engagement examples

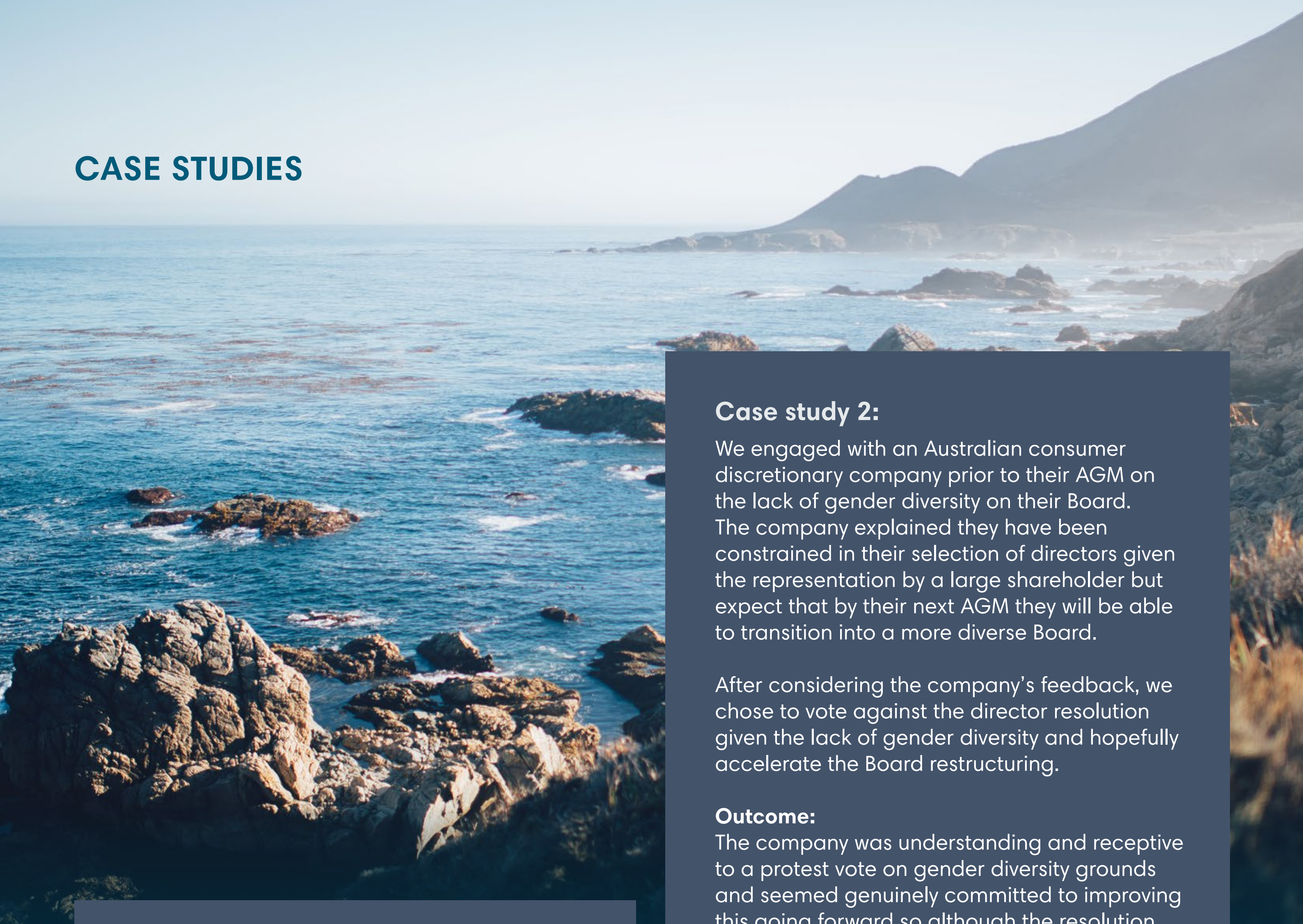
During the year we conducted 40 ESG-related engagements on ad hoc issues in addition to the 61 engagements we conduct annually as part of our Corporate Behaviour Survey process.

The ad hoc engagements were primarily focused on NZ companies, representing 28 out of the total 40 conducted. This reflects the fact that our portfolios are either constrained to the NZ market or have a proportionately larger weighting to NZ companies compared to Australia.

There were a variety of different ESG issues covered in these engagements and, in some cases, involved multiple interactions with the company. As part of our engagement strategy, we engaged with six companies on climate change, eight on social aspects including Modern Slavery, and 11 on sustainable outcomes. We continued to engage on AGM resolutions relating to board composition through six director election engagements, five on executive/director remuneration and four on miscellaneous ESG issues.

Outcomes from these engagements were generally constructive with many of the companies receptive to our concerns and in some cases taking action to improve on the issues identified, as demonstrated through the case studies over the page. We are cognisant that some of these issues are long term in nature and take time to enact change. There continued to be ongoing logistical challenges brought by COVID-19 restrictions such as the inability to thoroughly interview and recruit new Board candidates that we acknowledged and accounted for in our voting decisions. We are both patient and confident that companies will eventually make the appropriate adjustments, and we will continue to monitor and liaise with them until these are made.

CASE STUDIES



Case study 1:

We engaged with the CEO of a NZ consumer staples company regarding the consideration to acquire an emissions intensive asset. We expressed our view that although we are supportive of the company owning key infrastructure in the upstream supply chain, coal fired boilers for spray drying are not best practice despite lower short-term costs. We gave an example of how a global peer made a capital investment into an electric/gas boiler a couple of years ago.

We encouraged the company to take a strong environmental focus when new capital expenditure options are reviewed, noting it is a key consideration for us and other global investors for future capital allocations.

Outcome:
The CEO clearly took our feedback on board because over the past year after acquiring a majority stake in the dairy company, they announced a project to fully electrify their operations by replacing all coal-fired boiling with a high-pressure electric boiler.

Case study 2:

We engaged with an Australian consumer discretionary company prior to their AGM on the lack of gender diversity on their Board. The company explained they have been constrained in their selection of directors given the representation by a large shareholder but expect that by their next AGM they will be able to transition into a more diverse Board.

After considering the company's feedback, we chose to vote against the director resolution given the lack of gender diversity and hopefully accelerate the Board restructuring.

Outcome:
The company was understanding and receptive to a protest vote on gender diversity grounds and seemed genuinely committed to improving this going forward so although the resolution still passed, we are optimistic on the long-term efficacy of this engagement and vote.

Case study 3:

After a multi-year engagement with a NZ technology company on the lack of independence on the Board, the company announced the introduction of two new independent directors and the stepping down of the non-independent Chair as well as retirement of another long standing non-independent director.

Outcome:
This change in Board structure represented a significant, positive engagement outcome as we have long been advocating improved independence with the Board and management since the company listed. This change in Board composition provides a better balance of skills, experience, and diversity to promote improved governance of the company, and thereby performance.

Impact investing

IMPACT INVESTING IS:

Investments made with the intention to generate positive, measurable social and/or environmental impact alongside a financial return –

– (GLOBAL IMPACT INVESTMENT NETWORK (GIIN)).

“”

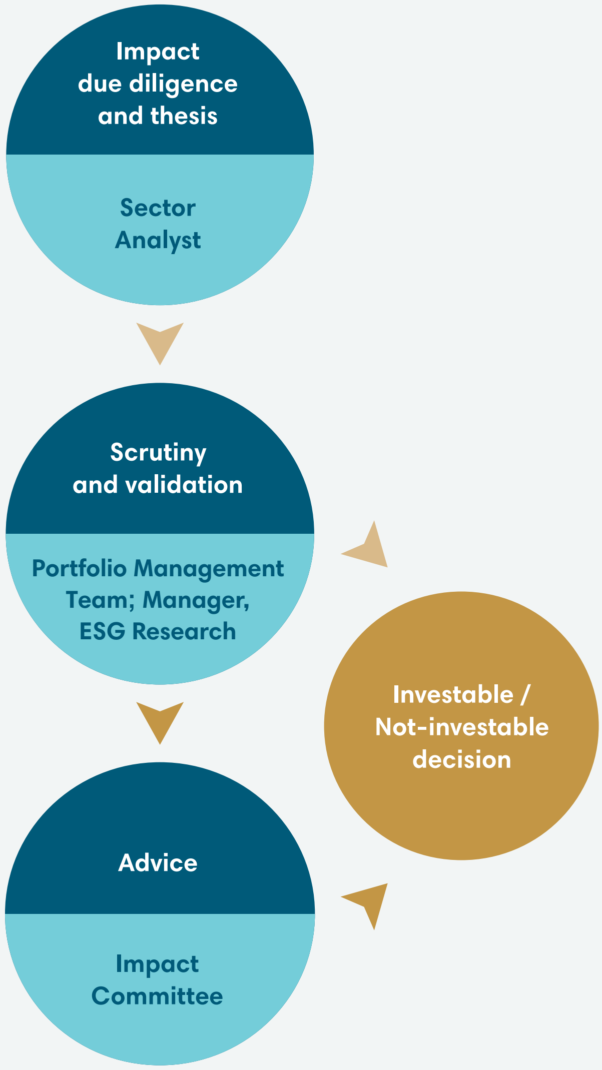
The Sustainable Impact Fund is a multi-asset fund designed for the sustainability minded investor. The Fund provides exposure to a mix of domestic and global investments with a focus on the positive impact that these investments will have on various objectives linked to the UN SDGs, whilst seeking positive investment returns.

Harbour's impact investing process starts with each sector analyst. Armed with intimate knowledge of a company, a sector analyst prepares an 'impact thesis' for each entity. This thesis provides a qualitative description of how a company contributes to the SDGs and is backed with a quantitative measure of that impact.

Each impact thesis is scrutinised by the portfolio management team who are assisted by Harbour's Manager of ESG Research, Jorge Waayman. From an objective perspective, the team conducts a review of the sector analyst's thesis.

Harbour's Impact Committee includes independent members and provides the portfolio management team guidance on any controversial aspects. Specifically, the purpose of the Impact Committee is to ensure active governance oversight of Harbour's adherence to the SDGs considering qualitative judgements made by the Portfolio Management team. The Committee will also provide insight into the latest developments in environmental and social issues which Harbour ought to consider in the management of the Fund and consider management recommendations for external impact data providers. The Committee has been formed for the benefit of investors in the Fund and currently consists of two internal and two external members.

Impact investing process:



Impact measurement provides a proof-point to combat greenwashing.

To simplify communication, Harbour provides summary measurements of impact alignment. We take the core SDG each company is aligned with and present weighted averages. This is supplemented with summary statistics such as carbon footprint to give investors a more rounded feel for the Fund and demonstrate how it fits with their values.

Each annual impact report provides a tangible numeric demonstration of each company's impact. Distilling this information, investors are provided frequent insights into investee companies via the monthly fund fact sheet. The inaugural impact report is expected to cover the period to 30 June 2022.

POLICY ADDITIONS IN 2021

In 2021 our ESG policy was updated to reflect our evolving approach with key developments such as a new section on sustainability outcomes and our guiding principles on proxy voting.

Sustainability outcomes

Investing for positive real-world outcomes has been an increasing focus with the UN Sustainable Development Goals (SDGs being a key framework to measure and track environmental and social impact. At Harbour, we seek to align our investments with the SDGs, acknowledging that not all these goals are applicable to companies under our purview in the listed space, by attempting to measure the additional progress made by a company towards a particular SDG. In practice, this could be an electricity generation company investing in further renewable capacity to help progress the Clean Energy and Climate Action SDGs or a healthcare company delivering a new technological solution to reduce the incidence of communicable diseases to aid the Good Health and Wellbeing SDG.

Harbour is a strong proponent of investing capital in companies that deliver positive real-world outcomes such as clean energy, medical advances and education solutions.

We are supportive of the UN's SDGs, a set of 17 goals (and further underlying targets) for governments and businesses to meet by 2030 to improve the wellbeing of people around the world whilst also protecting the planet. Through the application of our ESG approach, we seek to align our investments with this framework where it is relevant by identifying specific goals where companies are making an active contribution and favouring them through our allocation of capital.

For example, regarding SDGs 7 and 13 on Affordable and Clean Energy and Climate Action, we supported a renewable electricity generator as a cornerstone investor in a capital raising to develop a new geothermal power plant. This enabled the company to provide more clean energy to the country to help meet our climate targets.

There are numerous important global frameworks in place designed to help deliver positive real-world outcomes for the environment and society that we endorse. On climate change, we support the Paris Agreement and TCFD recommendations to provide targets to limit global warming and a framework to disclose relevant information to meet these targets. Regarding human rights, we advocate for companies to adopt the UN's Guiding Principles on Business and Human Rights to prevent, address and remedy human rights abuses occurring in business operations.

Voting principles

Our role as fiduciaries and active owners is reflected through our investment stewardship practices in engagement and proxy voting. We have guiding principles that help form our decisions on proxy voting resolutions, based on our view of strong ESG practices. The principles promote strong levels of independence and diversity amongst company Boards, appropriate disclosure on executive remuneration structures and transparency on climate change and human rights risk management. These principles, particularly on governance are consistent with recommendations in the NZX Corporate Governance Code which represents useful guidance for NZX issuers that we endorse.

In forming our decision on proxy voting resolutions, as a general guide we promote the following principles to encourage leading practice in ESG management. However, each resolution is assessed on a case-by-case basis and there may be circumstances where our vote deviates from these principles.

Board composition: The Board should comprise a majority of independent directors, subject to them contributing valuable skills and experience, with an adequate level of diversity across the Board. The roles of CEO and Chairperson should be separate, and Board sub-committees should be majority represented by independent directors.

Executive/director remuneration: Companies should report sufficient information on their executive remuneration structure including vesting schedules and performance hurdles on their incentive schemes. Director fee assessments should be benchmarked to an appropriate peer set that covers considerations such as geography, industry, complexity and size of the business.

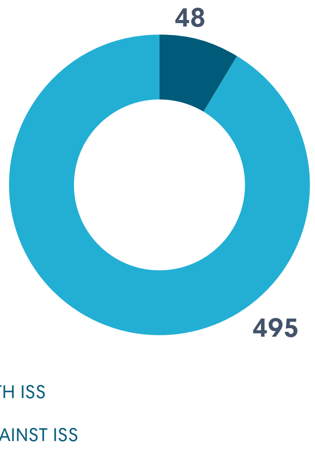
Climate change: Companies should be transparent and provide disclosure on their emissions metrics and targets and how they plan to meet them especially if they are materially exposed to the effects of climate change.

Human rights: Any material human rights risk identified by a company should be properly assessed and reported to stakeholders with appropriate action taken to mitigate any incidence of labour abuse or human rights violations.

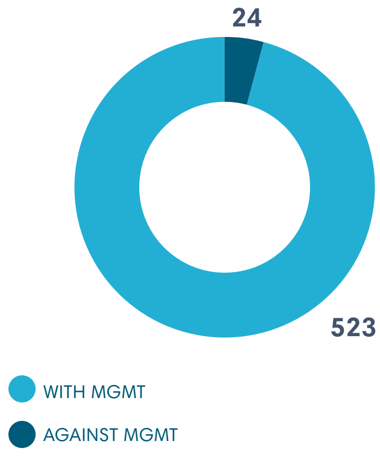
PROXY VOTES

A summary of proxy voting activity for the 12 months to 31st December 2021 is provided through the charts below.

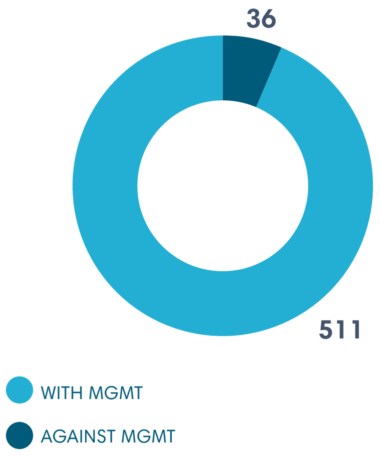
Total Proposals 2021



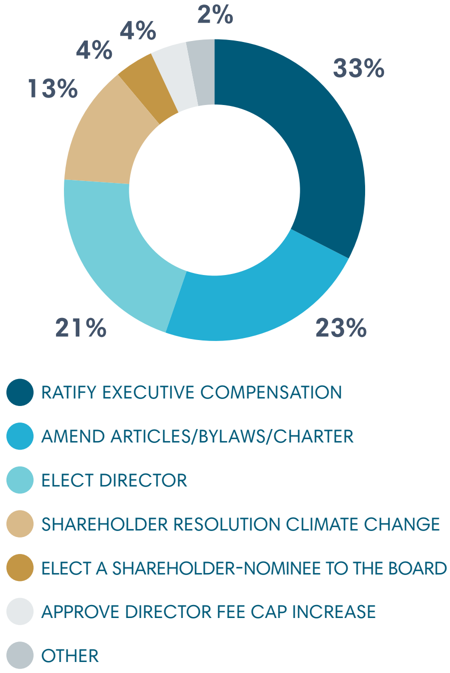
ISS Recommendations



Management Recommendations

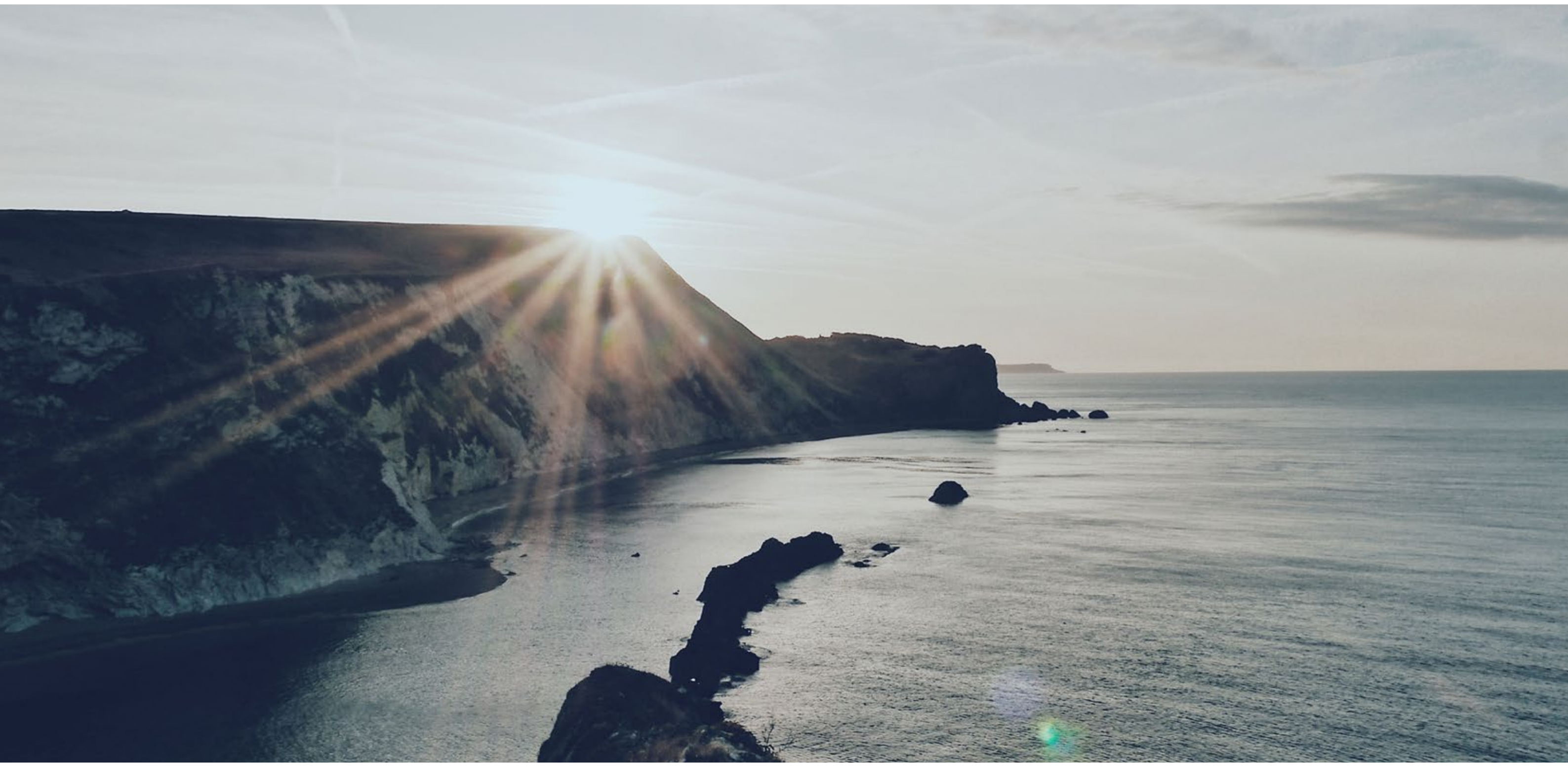


Breakdown of votes against



The key contentious issues we observed in AGM resolutions regarded board composition, executive remuneration and director fees. On board composition, one example included a New Zealand health care company who had two non-independent directors that were seeking re-election. We engaged the Chair expressing our concerns on the lack of independence on the Board to which they explained how there were two new independent candidates pending that would help address the issue, however COVID related restrictions had impeded the recruitment process. Given these undertakings we voted to support the director reappointments.

Remuneration related engagements were also often complicated by the impact of COVID over the financial year where, in some cases, board discretion was used in adjusting bonuses paid to executives. Proposed director fee increases were influenced by the geography, size, complexity and performance of a company, which emphasised the need to evaluate these resolutions on a case-by-case basis which involved engagement with the companies.



INCREASED TRANSPARENCY AND REPORTING TO CLIENTS ABOUT ESG IN PORTFOLIOS

In 2021, we added climate change metrics to our fund reports and fact sheets across all our equity funds. These metrics include the portfolio's total emissions, carbon footprint and weighted average carbon intensity. They are provided against each fund's respective benchmark to show a comparison of absolute emissions exposure as well as normalising for capital invested and the revenue of the underlying companies.

The metrics are consistent with definitions under the TCFD guidance, and go some way towards providing more transparency to our investors about the climate change impacts of the funds they are investing in.

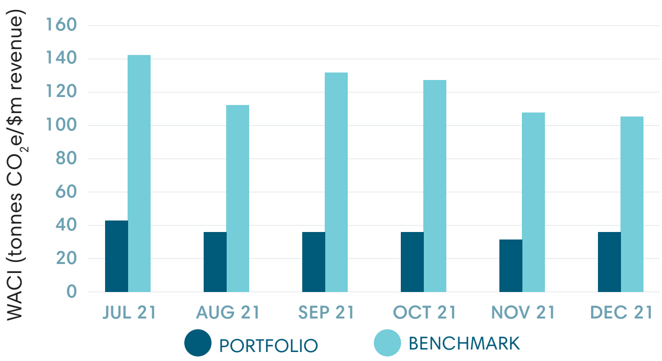
Direct clients also now receive further ESG measures for equity portfolios, such as the proportion of gender diverse workforces, modern slavery reporting and Boards comprising majority independent directors.

ESG metrics summary

2021	PERCENT OF PORTFOLIO
Gender diversity	**41%**
Modern Slavery Statement	**52%**
TCFD Reporting	**5%**
Majority Independent Board	**71%**
Science Based Target	**2%**
Total Carbon Emissions (tonnes CO_2e)[1]	**2,153**
Carbon Footprint (tonnes CO_2e/\$m invested)[1]	**12**
Weighted Average Carbon Intensity (tonnes CO_2e/\$m invested)[1]	**35**

Focus Fund as at 31 December 2021

Weighted average carbon intensity



Focus Fund as at 31 December 2021

DO RESPONSIBLE INVESTORS SACRIFICE PERFORMANCE?

There is a plethora of academic and industry studies that have explored the relationship between ESG and financial performance over the years. A meta-analysis by Friede, Busch and Bassen 2015 combined the findings from over 2000 individual studies that investigated this question to provide an overarching conclusion.

These results showed a strong business case for ESG investing, with approximately 90% of studies having a non-negative relationship between ESG and corporate financial performance. In addition, the large majority of these studies reported positive findings which appeared to be stable over time.

At Harbour, we have measured the effectiveness of our primary ESG assessment tool, the Corporate Behaviour Survey, through comparing the ESG scores derived against each company's stock price performance over the years. Given the small sample size and annual frequency of the data, it is difficult to draw statistically meaningful conclusions, consistently however, we have never observed a negative relationship i.e. a performance detriment to incorporating ESG considerations. There are also some years where we do find a positive correlation which is particularly apparent at the extreme ends of the spectrum.

This provides some evidence consistent with the international research, that, favouring companies with better ESG practices and tilting away from those with poor practices does not sacrifice from investment performance and likely adds value over time.
In fixed interest, bond issuers with superior ESG credentials can borrow at a fractionally lower interest rate which reflects both a desire from investors to support good practises and a reflection that poor ESG practises may in time manifest as poor business outcomes (i.e. higher risk).

There is a body of international evidence to suggest that bonds which are undergo a verification and labelling process (such as 'green bonds') exhibit a 0.02%-0.05% 'greenium'; a reduction in yield relative to unlabelled issuance.

Given the relative newness of the asset class and small sample size it is difficult to use NZ data to hold other risk characteristics constant and draw quantitatively robust conclusions for the NZ market. However, it is Harbour's judgement that the international observations hold. Initially, there was no observable yield reduction as issuers were keen to have the asset class succeed, but now deals are coming at a small observable reduction.

RESEARCH PROJECT: SOCIAL SPOTLIGHT

Social considerations have risen in prominence particularly over the last two years with the heightened focus on the health and wellbeing of company stakeholders given the COVID-19 pandemic. We believe that social considerations will continue to be important value drivers for companies and issues of concern for investors going forward. Human capital, as opposed to physical capital, has been more difficult to measure and capture using traditional accounting treatment, however, there has been growing evidence of the significance of human capital's contribution to business performance. A market study has shown the proportion of intangible assets in the S&P500's market value has grown from 17% in 1975 to 90% in 2020.

Employee engagement forms a critical part of this and underlying metrics that attempt to measure this include employee engagement surveys, voluntary turnover and absenteeism. Other aspects that could be classified under human capital management such as diversity, occupational health and safety and pay inequality also play a key role in affecting business performance.

Another important social issue is modern slavery risk where there may be cases of human rights violations within company operations or through their supply chains. Over the last few years, the risks of modern slavery have been brought to the forefront by policymakers – first by the UK passing their Modern Slavery Act (MSA) in 2015, and then Australia following suit in 2018.

As part of our research project into social considerations by Harbour intern, Purvai Gupta, we investigated the state of the New Zealand market in terms of human capital management and modern slavery through information provided by companies in their annual filings, as well as engaging with a sample of them directly with a survey. The desktop analysis spanned the S&P/NZX50 constituents, while the survey sample covered 20 of the largest of these companies.

Some of the high-level findings from the project included:

- The majority of our sample of NZ listed companies did not regularly monitor or evaluate their supply chain partners nor have a response mechanism in place in case of a modern slavery incident.
- Gender diversity across total workforces was broadly equal, but there is significant room to improve female representation in senior roles.
- There was a low level of disclosure on employee engagement scores and turnover however the majority of those that did report showed improvements over time.

Part Two:
Sustainability as a company

HARBOUR FOOTPRINT COMMITTEE

The Footprint Committee is a voluntary group of representatives from across the Harbour team who aim to improve Harbour's environmental and social footprint. They meet once a month and drive a variety of initiatives to help Harbour make a positive community impact. Where Harbour's Management and Board set the organisation's sustainability focus, the Footprint Committee brings the enthusiasm to enact initiatives and embody sustainability within the organisation's culture.

In 2021 the Footprint Committee started engaging with suppliers on modern slavery risk, established Harbour's staff volunteering policy, organised sessions run by external speakers, continued to encourage recycling, and formalised Harbour's Christmas giving drive.

CLIMATE CHANGE

Carbon Zero certification

In 2021 Harbour Asset Management Limited successfully completed the annual audit requirements for our Toitū net carbonzero certification. The total emissions for 2021 were 52.29 tCO_2e, which is 68% lower than the 2020 total of 164.01 tCO_2e. A reduction in emissions intensity of 3.01 tCO_2e/$M has been achieved (based upon a 2-year rolling average). These reductions have come from two main areas:

- one is COVID, which affected travel during the lockdown period from August 2021 onwards,
- the second is an internal staff campaign to increase mindfulness about flights and encourage people to combine trips or lean on technology to minimise flights where feasible.

Carbon Footprint

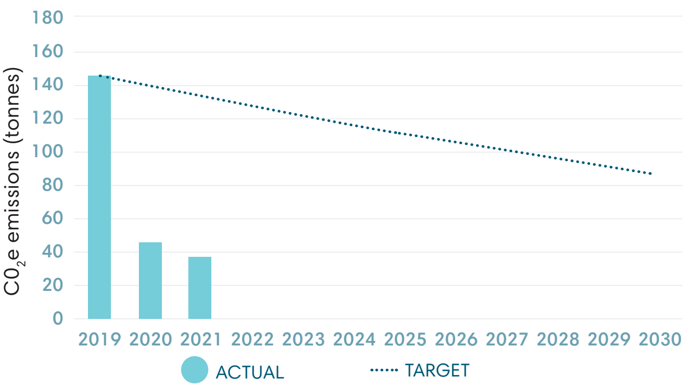
ESG metrics summary

EMISSIONS (CO_2E)	2019	2020	2021
Number of employees per year	24	28	33
Domestic Air Travel	64.7	43.8	37
Short Haul Air Travel	33.5	3.8	0
Long Haul Air Travel	59.6	0	0
Taxi Travel	3.9	2.2	2.2
Electricity Consumption	2.2	2.2	2.4
Electricity Transmission losses		0.2	0.2
Waste to landfill	0.1	<0.1	0.2
Paper use (100% recycled)	<0.1	<0.1	<0.1
Total	164	52.3	42
Scope 1	0	0	0
Scope 2	2.3	2.3	2.6
Scope 3	161.8	49.8	39.2

In 2020, Harbour set a target to reduce greenhouse gas emissions (GHG) emissions by 22% by 2030 as consistent with a 'well-below 2-degree scenario'. In 2021 we revisited this target with the belief that we should strive for a '1.5-degree scenario'. This equates to reducing emissions by approximately 5.5% every year until 2030 or a total reduction of 45.7% by 2030. Targets for each source of emissions support our macro target, noting most of our emissions are derived from flights and thus our reduction efforts are focused here also.

As can be seen below, thus far we have outperformed our target significantly. However, we acknowledge this is largely attributable to the temporary impact of COVID on the ability to travel and achieving the target will require continued effort and focus.

Progress vs emissions reduction target



Carbon offsets

As a Toitū net carbonzero certified company we offset all CO_2 emissions we have not mitigated by purchasing carbon credits. Specifically, for 2021 Harbour's Footprint Committee has elected to fund the **Bagepalli Coolie Sanga Biogas Cook Stoves Project in India.**

The Bagepalli Coolie Sangha is a membership-based people's organisation formed by agricultural labourers and their families.

The purpose of project is to set up 18,000 biogas plants (digesters) for single households, and in this way replace kerosene and non-renewable biomass combustion with biogas for cooking and hot water heating. A biogas plant of two cubic metre capacity is sufficient to provide cooking fuel for a family of four to five people. Feedstock for the digestor is cow dung, organic waste and other biomass waste.

Some of the co-benefits include reduced health hazards from indoor air pollution (cooking smoke), avoided health hazards associated with unmanaged waste in backyards and village streets, better waste management systems, avoidance of global and local environmental pollution and environmental degradation by switching from kerosene and non-renewable biomass to renewable energy.

The Harbour Footprint committee went through a process of evaluating various offset options. Projects such as planting pine forests in New Zealand are cheaper options, however, we believe that there are significant biodiversity problems with simply planting exotic monocultures. We wished to select an option that resonated with staff so there was even greater buy-in to the Toitū carbonzero programme, ensuring its success rather than viewing offsets as simply a discharge of our responsibilities. We were attracted to the adjacent benefits of the gas stove project.

CHARITY AND COMMUNITY ENGAGEMENT

Charity partnership

In 2019 the Footprint Committee went through a selection process to find a charity which aligned closely with our values and which had a strong need for new funding. We chose Roots of Empathy New Zealand. Roots of Empathy is an international, evidence-based classroom programme which reduces levels of aggression among schoolchildren by raising social/emotional competence and increasing empathy.

At the heart of the programme are a baby and parent who visit the class throughout the school year. A Roots of Empathy Instructor coaches children to observe the baby's development and feelings. In this experiential learning, the baby is the "Teacher" and a lever, which the Instructor uses to help children identify and reflect on their own feelings and the feelings of others.

In **2021** the company and staff raised over

$12,000

for **Roots of Empathy NZ.**

This charity partnership has not precluded one-off donations or fundraising efforts too, for causes such as Well Fed in 2021, Women's Refuge in 2020 and the Christchurch Call in 2019.

Volunteering policy

Harbour believes that our team is an incredible resource for our community and encourages staff to engage with and contribute to the community in positive and constructive ways. In support of this, from 2021 onwards Harbour will give each staff member 2 days of volunteering time per year.

Harbour (led by the Footprint Committee) will seek to form a long-term alliance with an organisation(s). Lasting partnerships can bring greater benefit to both parties. Contributing to the same cause provides opportunity for groupwork and team building as well as a demonstration of Harbour's collective impact.

A maximum of 1 day of the total allocation of volunteer leave can be allocated to organisations outside of the Harbour alliance. The combination of Harbour and individual led activities provides a mix of group activities and collective impact as well as assisting individuals contribute to causes close to their hearts.

The two Harbour alliances for 2021 were:

The Graeme Dingle Foundation's Career Navigator programme - this programme works with high school kids to broaden their career horizons and provide pathways to employment. Career Navigator is a school-based ready for work programme that supports schools to help students:

- Understand the importance of their schoolwork to their future lives
- Have confidence in their career choices
- Develop work readiness skills
- Develop positive attitudes toward work and job seeking.

Career Navigator goal is to provide young people with the work-ready skills and confidence they need to transition successfully from school into higher education and/or employment.

Harbour staff can contribute in four ways:

- Speaking at school assemblies
- Hosting workplace visits
- Mentoring small groups of young people
- Conducting practice job interviews with young people

Foodbanks - different options across the cities where Harbour staff are based. Foodbanks help people in crisis and often need resources for labour intensive elements of their operations, including to pack, fill and distribute food packages, as well as other activities to provide comfort and support to the most vulnerable people in our communities.

DIVERSITY AND INCLUSION

Harbour is a strong proponent of encouraging diversity and inclusion within our firm, the companies that we invest in, and our industry. Inclusivity is a core part of Harbour's team culture and is increasingly important as our team grows in size.

We believe that team diversity contributes to a successful and sustainable talent base. Different perspectives challenge embedded views and expose blindspots, helping to solve problems and perform consistently for our clients. Diversity is a core consideration in the recruitment process for new employees.

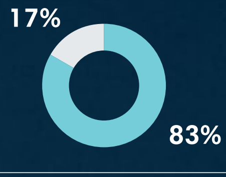
While we have made significant strides, we still have a way to go to meet the 40:40:20 management ratio we advocate for in companies we invest in (40% male, 40% female, 20% of any gender) at a management level, or within our investment team. We are pleased that overall our team does fit this ratio though.

A core issue we have found in hiring qualified investment staff is a diversity challenge within the existing talent pool. There is still a significant lack of diversity in the groups of people studying finance at a tertiary level.

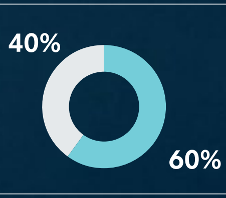
We see this shortage of applicants as a systemic failing and we have directed our volunteering efforts, as described earlier in this report, towards addressing this gender imbalance through our alliance with the Graeme Dingle Foundation's Career Navigator programme. Through our internship programme we have provided exposure to the industry to a diverse group of young people over the past three years.

Gender

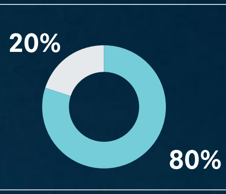
Board
Male
Female
Other



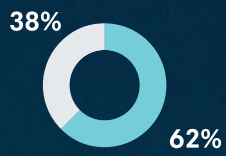
Whole team
Male
Female
Other



Executive Leadership Team
Male
Female
Other

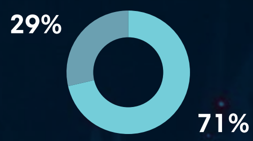


People managers
Male
Female
Other

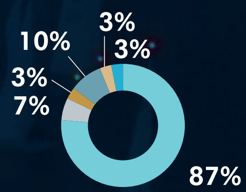


Ethnicity – TOTALS MAY ADD TO MORE THAN 100% AS PEOPLE COULD SELECT MORE THAN ONE OPTION

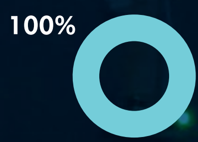
Board
European/Pākehā
Māori
Pacific Peoples
Asian
MELAA (MIDDLE EASTERN/LATIN AMERICAN/AFRICAN)
Other Ethnicity



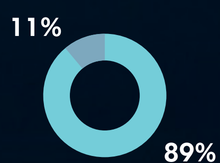
Whole team
European/Pākehā
Māori
Pacific Peoples
Asian
MELAA (MIDDLE EASTERN/LATIN AMERICAN/AFRICAN)
Other Ethnicity



Executive Leadership Team
European/Pākehā
Māori
Pacific Peoples
Asian
MELAA (MIDDLE EASTERN/LATIN AMERICAN/AFRICAN)
Other Ethnicity



People managers
European/Pākehā
Māori
Pacific Peoples
Asian
MELAA (MIDDLE EASTERN/LATIN AMERICAN/AFRICAN)
Other Ethnicity



Note: These statistics are the result of a team survey undertaken in early 2022

Harbour Asset Management Limited
0800 460 830
contactus@harbourasset.co.nz

Level 16, 171 Featherston Street, Wellington
Level 17, 21 Queen Street, Auckland

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