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Harbour Fixed Income Product Comparison

Harbour Asset Management is now managing two fixed income products: the existing Harbour NZ Corporate Bond Fund and the newly launched Harbour NZ Core Fixed Interest Fund.

While these Funds both have a low or low to medium risk profile, they seek to earn fixed income returns applying different styles. We therefore expect the Funds will appeal to different investors with different underlying preferences and risk appetites for their fixed income holdings.

Harbour NZ Corporate Bond Fund

The NZ Corporate Bond Fund should appeal to those investors who:

- Are seeking to capture the credit premium in NZ corporate bonds.
- Are comfortable with holding an average A+/A rating, including limited holdings of higher yielding BBB, sub-ordinate and perpetual debt.
- Prefer a simple management style, managing credit risk through diversification and monitoring, and interest rate risk through laddering maturities.

The NZ Corporate Bond Fund aims to outperform its benchmark (ANZ Corporate A-Grade Index) by 60 basis points. It will seek to achieve this total return through a running yield around 75-100 basis points over the benchmark. The running yield of the Fund is currently around 6 per cent.

Harbour NZ Core Fixed Interest Fund

The NZ Core Fixed Interest Fund should appeal to those investors who:

- Are seeking returns from both credit premium and duration management.
- Are comfortable with an average AA/AA – rating, including a higher proportion of liquid NZ government securities, and tighter restrictions on BBB, sub, and perpetual debt.
- Prefer an active management style to manage risks and take opportunities, drawing on research signals on domestic monetary policy, global trends, and overall credit conditions.

The NZ Core Fixed Interest Fund aims to outperform its benchmark (50:50 ANZ Government Stock Index: ANZ Corporate A-Grade Index) by 75 basis points. It will seek to achieve this total return through two sources. First, the running yield of the Fund, which is currently around 4.50 per cent, reflecting the low level of market interest rates. Second, around 75 basis points from active management.

The difference in returns between the funds will vary through time. On average, the total return from the NZ Corporate Bond Fund is likely to be marginally higher than the NZ Core Fixed Interest Fund, reflecting its higher running yield. The NZ Core Fund is likely to have less variation in returns over time, given the more diversified sources of return, more active risk management, and lower exposure to credit events.

Table 1. Summary Fixed Income Fund Product Comparison

		NZ Core Fixed Interest	NZ Corporate Bond
Objectives	Philosophy	Capture premium and mispricing	Capture premium
	Core instruments	NZ Govt and investment grade corporate bonds	NZ investment grade corporate bonds
	Strategy	Active in liquid markets	Low turnover
	Benchmark	50:50 NZ Govt : A-Grade Corp	NZ A-Grade Corp Index
	Alpha target	75 basis points	60 basis points
Liquidity	Highly Liquid	Minimum of 10%	Minimum of 5%
Credit	Average portfolio rating	AA / AA-	A+ / A
	Credit allocation	30-70%	0 - 95%
	BBB and unrated	Maximum of 7.5%	Maximum of 15%
	Sub and perpetual	Maximum of 10%	Maximum of 20%
Duration	Years to index	+/- 1.5	+/- 0.5
Non-NZDs (FX hedged)	NZ and Aus credit	Maximum of 20%	0%
	US and Aus govt futures	Maximum of 20%	0%
Risk management	Tools	Diversification and limits Interest rate hedging Credit risk hedging	Diversification and limits
Fund details	Fees	60 basis points	60 basis points
	Access	Platform only	Platform only
	Tax status	PIE	PIE
	Distributions	Quarterly	Quarterly

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