

HARBOUR NZ CORE FIXED INTEREST FUND

Fund Fact Sheet, April 2012

Fund Outline

The Harbour NZ Core Fixed Interest Fund is an actively managed investment grade bond fund that invests predominantly in New Zealand government and corporate fixed income securities.

The Fund is benchmarked against a 50:50 weighted average of the NZ Government Stock Index and ANZ A-Grade Corporate Index, and aims to outperform this benchmark by 75 basis points per annum over a rolling three year period.

Distributions are paid to retail investors quarterly. The Fund is a registered PIE.

Investment Style

The Fund aims to generate returns from two activities.

The majority of returns will come from investing in a diversified range of New Zealand government and corporate fixed income securities. This enables the Fund to capture the premium above cash that medium to longer-term securities typically offer.

Additional returns are targeted from research-driven, active investment decisions. We will increase the duration or credit exposure of the Fund when these are offering attractive returns. Conversely, we will reduce or hedge positions when we believe there is insufficient compensation for these risks.

At all times, we emphasize the use of low-cost, efficient hedging instruments, and ensuring the Fund has a strong liquidity position.

Eligible Securities

The Fund only invests in Investment Grade securities. A small allocation to unrated debt is permitted, only when these are deemed to be of Investment Grade quality. The vast majority of debt securities will be denominated in NZ Dollars, with any foreign currency positions hedged back into NZ Dollars.

To improve the risk characteristics, the Fund is able to diversify into debt securities issued by a selected set of large Australian companies, and use instruments to manage interest rate and credit risk, including US and Australian interest rate futures and interest rate swaps. There are tight limits on lower-rated and lower-ranking securities: the maximum holding of BBB rated securities is 5%; the maximum exposure to subordinate or perpetual debt is 10% of Fund assets. CDOs are not permitted.

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Investor Suitability

Investors with a medium to long-term investment horizon, seeking a low level of capital volatility and an income level commensurate with the yield on New Zealand government and investment grade corporate bonds. The Manager aims to deliver a low or low to medium risk profile.

Manager Profile

Harbour Asset Management is a research-focused asset manager with over \$800mn funds under management in NZ fixed income and Australasian equities.

The Harbour Fixed Income team manages the NZ Corporate Bond Fund and NZ Core Fixed Interest Fund:

Christian Hawkesby (Director, Head of Fixed Income) joined Harbour from the Bank of England, where as Head of Market Intelligence he advised on monetary policy and financial stability, and ran the special Corporate Bond Scheme.

Mark Brown (Director, Fixed Income Portfolio Management) has extensive local and international experience. He has led fixed income portfolio management teams in New Zealand for 16 years and has studied and worked in the US and UK.

Independent Research House review



Morningstar Take

"run by a capable team with a well-thought-out product and attractive fee, Harbour NZ Core Fixed Interest is a meaningful competitor in the New Zealand fixed interest fund universe"

Lonsec Take

"Lonsec believes that Hawkesby and Brown's previous experience, lends itself to top down interest rate and sector allocation decisions which are intended to be the key drivers of this Fund."

Performance to 30 April 2012

Period	Fund (%)	Benchmark (%)	Relative (%)
Month	1.13	1.37	(0.24)
3 months	1.26	1.21	0.05
Year	-	-	-
Since Inception	7.25	8.10	(0.85)

Returns are before tax and excluding fees. Returns include imputation credits. Numbers are rounded. The benchmark 50:50 NZ Government Stock Index and ANZ A-Grade Corporate Index. Inception date is 20 May 2011.

Contact Information

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Portfolio Data as at 30 April 2012

Summary Statistics		Rating Weights		Top 10 Exposures	
Portfolio NAV \$m	\$45.6	AAA	53.5%	NZ Government	48.3%
Ave Mark-to-market yield	3.85%	AA	24.1%	Westpac Banking Corp	7.4%
Index Average Yield	3.82%	A	17.9%	Bank of New Zealand	5.3%
Fund Modified Duration (years)	3.03	BBB	3.4%	ASB Bank	4.9%
Fund Spread Duration	1.52	NR	1.1%	Rabobank	4.9%
Index Mod. Duration	3.53			ANZ Bank	3.6%
Average Credit Rating	AA-			Wesfarmers	2.8%
Number of Issuers	34			NZ Post	2.3%
				Akld Airport	2.3%
				Toyota Motor Corp	2.2%

Current Strategy Comment

Interest rates in New Zealand and overseas continued to fall over April, continuing the momentum from the end of March.

Global interest rates fell sharply, due to familiar themes, including doubts about the US economic recovery, concerns about European sovereigns, and worries about a hard landing in China.

In New Zealand, interest rates also fell after the Reserve Bank's Official Cash Rate (OCR) Review. The Bank acknowledged that "the domestic economy is showing signs of recovery" and that "that recovery will strengthen as repairs and reconstruction in Canterbury pick up later in the year". But the Bank also hinted at the possibility of cutting its official rate from 2.5% if the NZ currency remained stubbornly high. In response, market pricing now implies that expectations have shifted from interest rate hikes in early 2013 to the chance of interest rate cuts in mid 2012.

The fall in interest rates in Australia has been even more dramatic, after a string of weak economic data and the Reserve Bank Australia (RBA) surprising markets with a 50 basis point cut of its official interest rate to 3.75%. Both Australian and New Zealand government bonds continue to be sought after by global investors as an attractive alternative to other sovereign bond markets.

Despite the challenging environment in Europe, global credit markets have been relatively stable through April. New Zealand credit spreads on senior financial credit were broadly unchanged, after a strong performance through Q1 2012. Some reset securities underperformed on the month, which is common in a falling interest rate environment.

Fund Details

Benchmark: 50:50 weighted average of the NZ Government Stock Index and ANZ A-Grade Corporate Index.

Investment objective: 75 basis points p.a. above benchmark over a rolling three year period.

Portfolio Investment Entity Registered: Yes.

Application: Platform only.

Unit pricing: Daily.

Management fee: 0.60% p.a.

Entry/Exit fees: None.

Distribution policy: The Retail Unit Trust pays quarterly distributions reflective of the yields earned from the securities.

Fund Guidelines

Duration: maximum +/- 1.5 years from benchmark.

Liquidity: minimum Highly Liquid securities 10%, minimum NZ government securities 30%.

Credit: maximum credit allocation 70%, maximum BBB 5%, maximum BBB and unrated (excluding local authorities) 7.5%, maximum subordinate and perpetual debt 10%.

Foreign rates: maximum total exposures to US and Australian government futures and interest rate swaps 20% (on a 10-year duration equivalent basis).

Non-NZD credit: maximum non-NZD credit exposures 20%.

Currency: All non-NZD securities hedged to NZD.

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