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Practical Benefits of Investing via Harbour Fixed Income

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.

This note outlines the practical benefits of investing via Harbour Fixed Income products, relative to investing directly in fixed income securities.

1. **Diversification:** The NZ Corporate Bond Fund currently holds over 100 securities from over 50 issuers, diversifying the risk across, issuers, sectors, maturities, and security types. The NZ Core Fixed Interest Fund will also achieve high levels of diversification though it is anticipated that fewer securities will be held.
2. **Access to securities:** The Funds can access bonds in the wholesale primary and secondary markets, in addition to the retail primary market and bonds trading on the NZX.
3. **Consolidation of transactions:** Investing through the Funds requires fewer transactions for advisors than managing multiple client portfolios, saving time and reducing operational risks.
4. **Uniform exposures for each client:** Investing through the Funds enables financial advisors to provide a similar risk/return profile to clients in fixed income, treating them uniformly.
5. **Liquidity:** The Funds provide daily liquidity on investment platforms, enabling efficient liquidation for individual unit holders, and removing the need for advisors to sell the most liquid securities in a client's portfolio.
6. **Transaction costs:** The Funds unit prices trade at the mid price, avoiding the bid-offer transacting in small sizes in individual securities. Trades undertaken for the Funds are executed at the then best available prevailing market prices.
7. **Performance measurement:** Unit prices reflect mark-to-market portfolio valuations and enable accurate performance measure, rather than focusing on historic pricing and coupons.
8. **Disclosure:** The Funds provide monthly disclosures of key holdings, risk exposures, and weighted average yield (a metric similar to coupons). Full disclosure is available on request.
9. **Risk monitoring:** The Funds benefit from full-time management from an experienced and well-resourced fixed income team.
10. **Independent assessment:** The Funds are researched by independent consultants. The existing Corporate Bond Fund is rated by Morningstar. The new NZ Core Fixed Interest Fund is in the process of being reviewed by independent consultants.

11. **Tax efficiency:** The Funds PIE status enables a lower tax rate of 28% versus the top marginal tax rate of 33%. In addition, the following table shows additional levels of tax efficiency gained from generating PIE income:

If the taxable income is:	And taxable income plus PIE income of:	Then the PIR rate that applies is:
\$0 - \$14,000	\$0 - \$48,000	10.5%
\$0 - \$14,000	\$48,001 - \$70,000	17.5%
\$14,001 - \$48,000	\$0 - \$70,000	17.5%
\$48,001 and over	Any	28%
Any	\$70,001 and over	28%

For example, a client may earn up to \$14,000 in taxable income and earn another \$34,000 in PIE income and elect a 10.5% PIR Rate. However, a client earning up to \$48,000 of taxable (non PIE) income may be taxed at 17.5%.

12. **Tax reporting:** For investors who elect a Prescribed Investor Rate above 0%, the PIE tax payable is a final tax. You do not need to declare it or include it in any tax returns. All tax calculations are done within the Fund.
13. **Low fees:** Headline 0.60% per annum management fees are at the lower end of the industry.

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