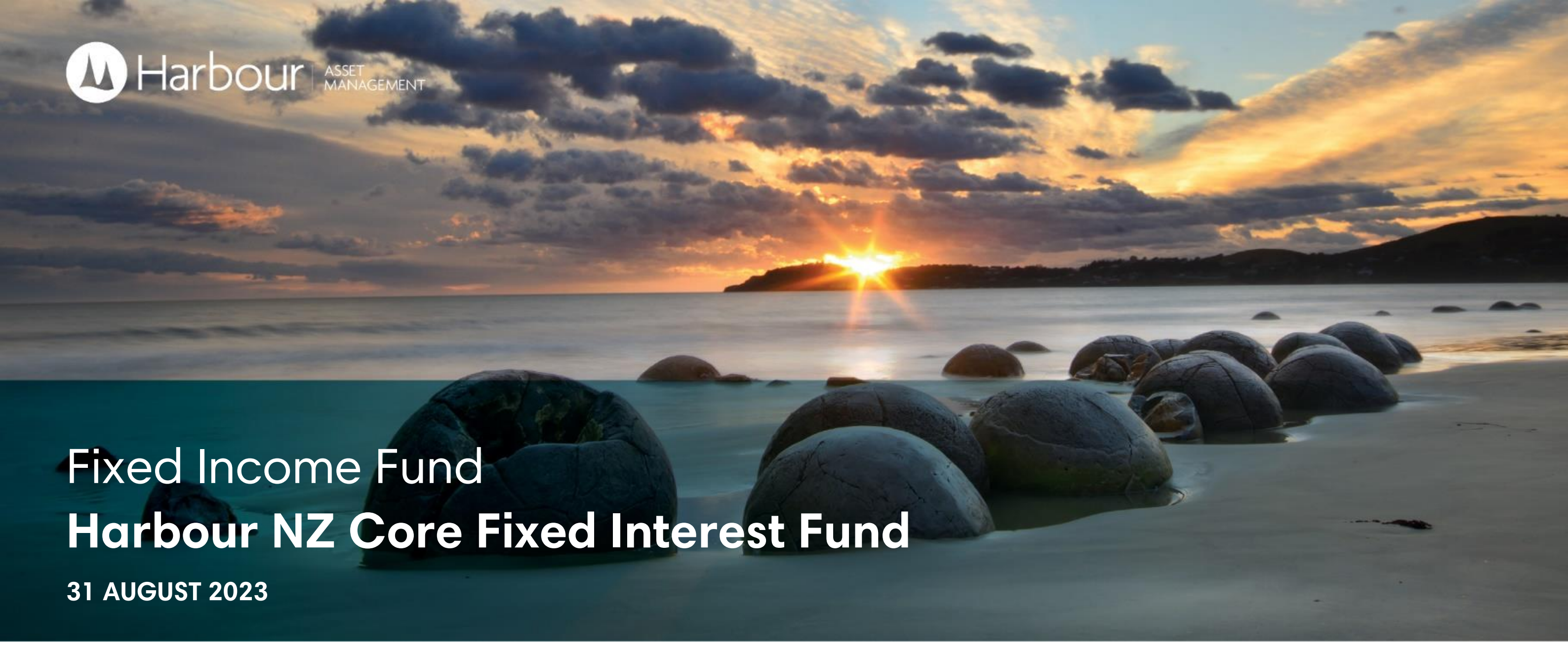


Harbour ASSET MANAGEMENT

Fixed Income Fund

Harbour NZ Core Fixed Interest Fund

31 AUGUST 2023

1 month performance	1 year performance	Fund size	Average credit rating
-0.20%	**1.66%**	**$579,656,616**	**AA-**
Before fees & tax	Before fees & tax	NZD	

Intra-month volatility continued to be a theme over August with New Zealand 10-year government yields rising nearly 0.5% at one point, before falling to close at 4.9%.

The move was largely inherited from overseas, which saw US 10-year yields reach multi-year highs in the face of supply and concern that the US Federal Reserve may signal the need for a medium-term, fundamental increase in interest rates. The speech in question passed without event, however, and rates consequently declined. Domestically, the RBNZ held the cash rate at 5.5% with a very small, upward revision to its forecast rate track. Markets were little moved on the news.

The fund posted a small negative return against this backdrop, in line with the benchmark return.

Performance	1 MONTH	3 MONTH	1 YEAR P.A.	2 YEAR P.A.	3 YEAR P.A.	5 YEAR P.A.	10 YEAR P.A.	SINCE INCEPTION P.A.
Return before fees & tax	-0.20%	-1.13%	1.66%	-3.00%	-2.82%	0.73%	3.16%	3.53%
Benchmark return	-0.21%	-1.27%	0.33%	-4.12%	-4.30%	-0.19%	2.54%	2.83%
Relative performance	0.01%	0.14%	1.33%	1.11%	1.49%	0.91%	0.62%	0.71%
Tracking error	-	-	-	-	0.67%	-	-	0.65%
Information ratio	-	-	-	-	2.23	-	-	1.09

Inception: 1 September 2011. Benchmark: Bloomberg NZBond Composite 0+ Yr Index, effective 1 January 2019. Prior benchmark was 50/50 weighted average of S&P/NZX Govt Bond Index & S&P/NZX A-Grade Corporate Bond Total Return Index. Past performance is not indicative of future results.

Key yield movements	90 DAY BANK BILL	2YR NZ GOVT STOCK	A-AAA AVERAGE CREDIT SPREAD TO NZ GOVT STOCK	10 YR NZ GOVT STOCK
Yield	5.65%	5.33%	0.34%	4.88%
1m change	-0.01%	0.06%	-0.09%	0.20%
12m change	2.19%	1.50%	-0.29%	0.89%

Source: Bloomberg.

Fund characteristics

Fund characteristics	FUND	BENCHMARK
Yield to maturity	5.65%	5.28%
Modified duration (years)	5.57	4.53
Credit duration (years)	1.21	1.14
Weighted average rating factor (WARF) ^	AA-	
Number of issuers	60	

^ Calculated as the weighted average credit rating of the fixed interest securities using a Moody's WARF factor. Securities not rated by a ratings agency are assigned an internally-assessed rating by Harbour.

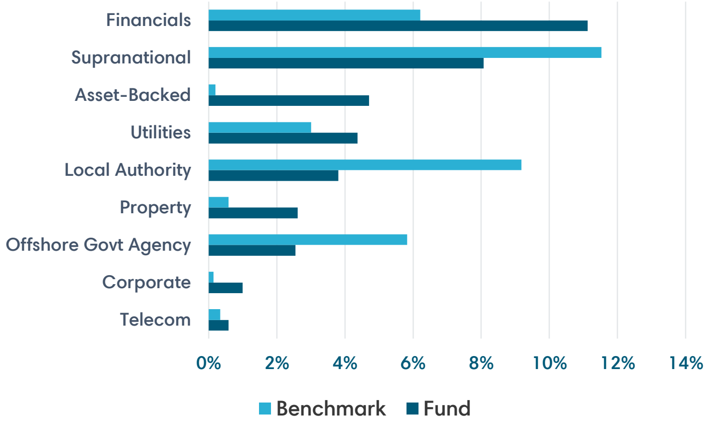
Top 10 issuer exposures

Top 10 issuer exposures	POSITION
New Zealand Government	57.61%
World Bank Group	4.60%
BNZ / NAB	4.54%
ASB / CBA	2.85%
Cash	2.40%
Asian Development Bank	2.20%
Westpac	2.09%
NZ Local Government Funding Agency	1.99%
Kiwibank	1.63%
Transpower New Zealand	1.35%

Rating composition

	FUND
AAA	70.57%
AA	18.21%
A	4.82%
BBB	4.42%
NR	2.04%

Credit sector vs benchmark



Fund attribution	1 MONTH	3 MONTH	1 YEAR P.A.	3 YEAR P.A.	5 YEAR P.A.	10 YEAR P.A.	SINCE INCEPTION P.A.
Credit allocation	0.00%	-0.02%	-0.02%	-0.01%	0.01%	0.04%	0.05%
Duration & yield curve	0.00%	-0.11%	-0.17%	-0.18%	-0.10%	-0.05%	0.01%
Relative value	-0.07%	0.03%	0.56%	0.46%	0.27%	0.21%	0.24%
Inflation - indexed	0.02%	0.07%	0.51%	0.64%	0.37%	0.16%	0.17%
Security selection, transaction costs & other	0.07%	0.16%	0.46%	0.58%	0.37%	0.25%	0.24%
Total	0.01%	0.14%	1.33%	1.49%	0.91%	0.62%	0.71%

Outlook and strategy

Central banks are continuing to agonise over policy settings that appropriately reflect inflation concern and slowing economic activity. At one end of the spectrum, the Reserve Bank of Australia maintained its policy stance at its August meeting partly due to a substantial drop in consumption growth as households respond to cost-of-living pressures and higher interest rates. On the other hand, Federal Reserve Chair Jerome Powell emphasized the central bank's commitment to lowering inflation to the 2 percent target in his speech at the Jackson Hole Economic Symposium in late August. Powell noted that despite progress, evident in a further slowing in job growth and ongoing disinflation, more work was needed to achieve price stability.

The global economy is slowing faster than expected. Manufacturing and services Purchasing Managers' Indices (PMIs) painted a picture of a deteriorating economic environment in August. In the US, the manufacturing PMI fell to 47.0, driven by declining output and new orders. The services PMI slipped from 52.3 to 51.0, likely influenced by weakening consumer spending. The UK services PMI slipped into contraction, with both output and new orders declining. Europe's services PMI unexpectedly dropped below 50, reaching a 30-month low, while manufacturing slightly improved but remained in contraction territory. The US labour market also appears to be loosening with the ratio of job openings to unemployed people dropping to 1.5, from a peak of 2 in March and versus pre-Covid levels around 1.2. China's economic outlook remains poor with activity data continuing to disappoint amid a lack of meaningful stimulus from the government.

Weakening trading-partner demand, driven by a slowing Chinese economy, has resulted in a significant decline in New Zealand's commodity export prices in recent months. This decline poses multiple challenges for our economy. The reduced export revenues are likely to have a negative impact on economic activity, potentially leading to a further deterioration in the fiscal accounts and necessitating additional bond issuance. The export weakness is likely to hinder the improvement of the current account balance, increasing New Zealand's reliance on the global economy and putting pressure on the country to attract foreign investment via a weaker NZD or higher long-term bond yields.

The Reserve Bank of New Zealand (RBNZ) continues to believe it has done enough to tame inflation. We agree and expect Official Cash Rate (OCR) cuts from early next year. The RBNZ left the OCR unchanged at 5.50% at its August Monetary Policy Statement decision and made very small changes to its OCR forecast, demonstrating confidence in achieving its inflation target. The Monetary Policy Committee (MPC) noted that the current level of interest rates is limiting spending and reducing inflation pressure, as expected. It noted that global economic growth is below trend and many countries are experiencing declining headline inflation but persistent high core inflation. In NZ, the MPC highlighted that despite easing labour shortages due to softening demand and increased immigration, core inflation remains elevated. The committee acknowledged the need for a prolonged period of subdued spending to align with supply capacity and reduce inflation. As such, the RBNZ forecast the OCR to remain at current levels until 2025. We think there is already strong evidence that monetary policy is working and less restrictive policy settings are likely from early next year.

Investment Strategy

We observe various macro-economic themes influencing domestic interest rates over recent months. Any of these may prove to be a driver going forward.

Firstly, the RBNZ appears increasingly confident that current interest rate settings are appropriate. This has proved less of a trigger lately and the market's enthusiasm in May to price a rate cutting cycle following the signal of an 'on-hold' RBNZ seems quite distant.

The second theme has been the movement in overseas markets, the US in particular. There, the aggressive series of rate cuts has been walked back by the market as fears of banking contagion have abated and the labour market, in particular, is softening at only a gradual and orderly pace from the very tight levels seen earlier this year. Over August, NZ rates followed the US higher then lower in cycle with their economic prints and heavy supply schedule.

Finally – the economic outlook facing New Zealand appears gloomy. Challenges inherited from low Chinese growth and domestic households continuing to face higher mortgage levels are partially offset by stability in the housing market and firm employment prospects, but the outlook is subdued overall. There has not been sufficient evidence for New Zealand to be deemed different at this stage and the intermittent local data has taken a back seat, though this can quickly change.

These various themes provide numerous sources for interest rate volatility. Our investment strategy is driven by the medium-term view that the Official Cash Rate (OCR) is likely to shift downwards in 2024 and be much less restrictive. Exact triggers for this change remain uncertain, but they can occur either suddenly, in response to shocks, or gradually as the economic cycle unfolds. The fund has a meaningful position, with capacity for further investment should we see large, unfavourable price movements.

In NZ credit markets, issuance has increased rapidly from low levels. New deals are priced at more attractive credit spread premiums and closer to those observed overseas. For example, in August BNZ brought a 5-year senior bond to market at a premium of 100 bps (1%), approximately 20 bps over secondary market levels. New issuance flow has continued with a variety of NZ entities currently active - both locally and overseas – though mostly at wider levels than secondary market indications.

This pricing opportunity has allowed us to realign credit positioning in portfolios closer to benchmark. With spreads lower than pre-Covid levels, but the economic outlook challenged, the fund had built an underweight exposure. Now, new issuance pricing reflects our assessment of fair value and the fund has been participating meaningfully in the new deals. Credit exposure is closer to neutral. Sector selection remains a feature of fund positioning, with a bias towards the property and structured sectors, which have seen the spread premiums widen in sympathy with their global peers. Sectors favoured by retail investors remain expensive in our view, and the fund is underweight.

Disclaimer

Data sources:

S&P Dow Jones LLC

Bloomberg

COMPLIANCE CERTIFICATE

Harbour NZ Core Fixed Interest Fund (the "Fund") (Wholesale Unit Trust)

For month ended 31 August 2023

Harbour Asset Management Limited (the "Manager"), certifies that, to the best of our knowledge, after having made reasonable enquiries, and except as specified in this certificate;

1. The Fund has at all times complied with the Fund's Trust Deed;
2. The Fund has complied with internal investment guidelines, established as at 28 Sept 2011.
3. The Manager has at all times during the month complied with the policy and procedures set out in its Compliance Manual

Tim Morrison
Head of Compliance
Harbour Asset Management Limited

Dated 04 September 2023