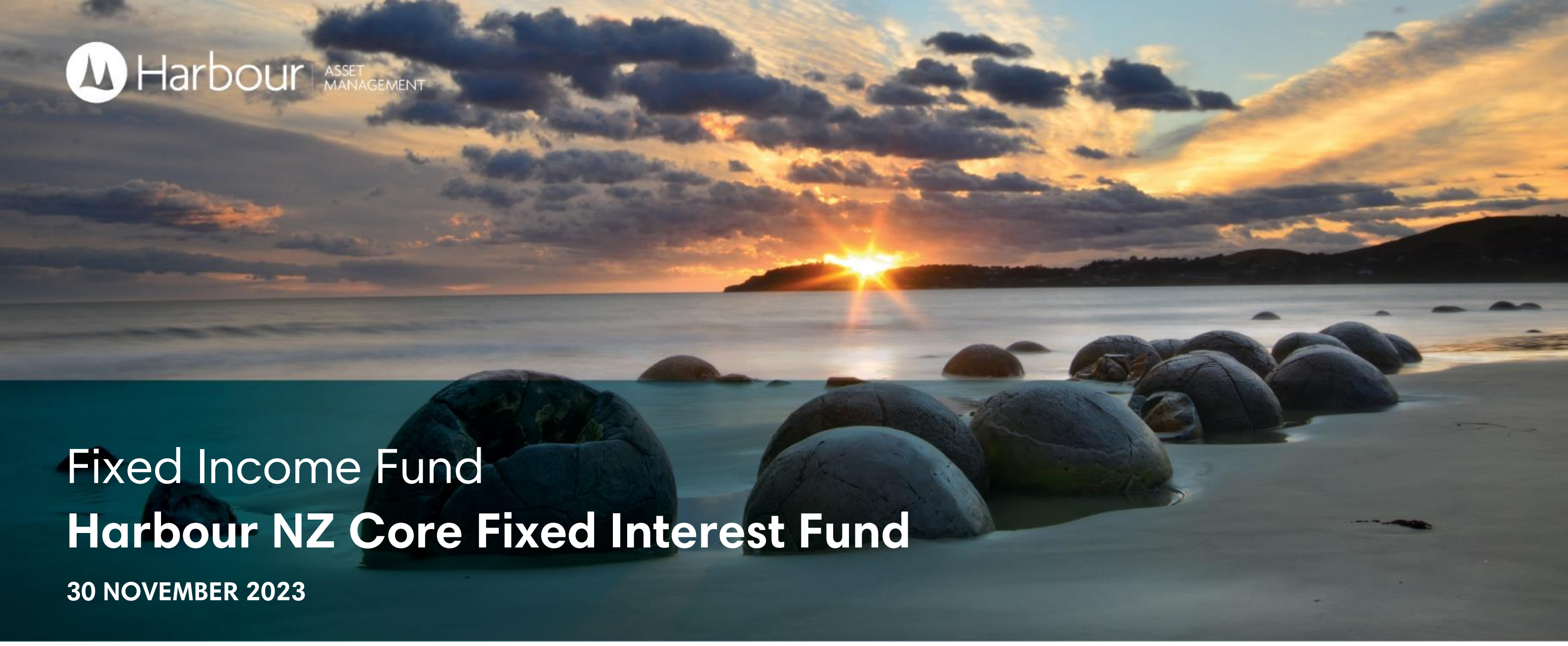


Fixed Income Fund

Harbour NZ Core Fixed Interest Fund

30 NOVEMBER 2023

1 month performance	1 year performance	Fund size	Average credit rating
3.68%	**3.15%**	**$572,330,794**	**AA-**
Before fees & tax	Before fees & tax	NZD	

Fixed Interest markets performed very strongly in November, as economic data, both global and domestic, showed growing evidence that central bank rate hikes are finally slowing economies and reducing inflation pressure. A widespread view has developed that the rate hike cycle has gone far enough and investors now want to anticipate rate cuts as the next phase in the market cycle. This is not the first time this year that the market has looked to anticipate better times in fixed interest returns, but conviction seems stronger now. Late in the month, the Reserve Bank of New Zealand signalled that they remain unconvinced, citing strong immigration and government spending as elements that have not yet enabled core inflation to fall meaningfully. Currently, markets are unwilling to align with the RBNZ's assessment, so the expectation of rate cuts in 2024 remain. This enabled the Fund to close the month with strong monthly gains intact.

The Fund return of 3.7% before fees and tax was a healthy 0.4% ahead of the index, as we had lengthened the duration of investments significantly in October, when yields were higher.

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	3.68%	1.84%	3.15%	-0.96%	-2.27%	1.01%	3.25%	3.61%
Benchmark return	3.25%	1.61%	2.15%	-1.85%	-3.51%	0.07%	2.65%	2.90%
Relative performance	0.43%	0.23%	1.01%	0.90%	1.24%	0.94%	0.60%	0.71%
Tracking error	-	-	-	-	0.68%	-	-	0.65%
Information ratio	-	-	-	-	1.83	-	-	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	5.62%	5.04%	0.34%	4.90%
1m change	-0.02%	-0.44%	-0.09%	-0.67%
12m change	1.20%	0.38%	-0.34%	0.81%

Source: Bloomberg.

Fund characteristics

	FUND	BENCHMARK
Yield to maturity	5.52%	5.16%
Modified duration (years)	4.82	4.38
Credit duration (years)	1.23	1.14
Weighted average rating factor (WARF) ^	AA-	
Number of issuers	58	

^ 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.

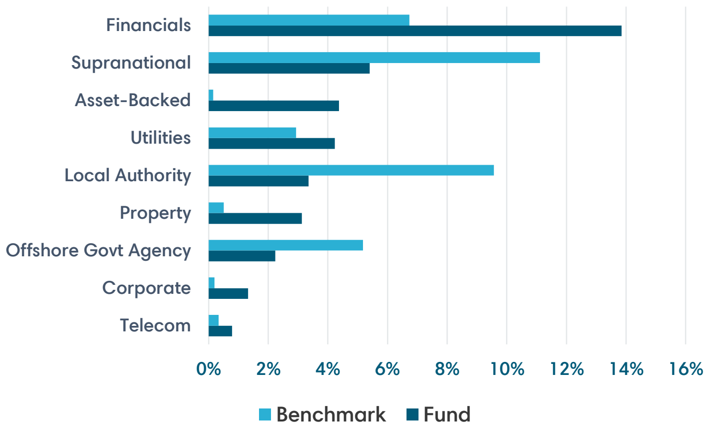
Top 10 issuer exposures

	POSITION
New Zealand Government	58.84%
BNZ / NAB	5.22%
World Bank Group	2.95%
Westpac	2.63%
Kiwibank	2.18%
ASB / CBA	2.14%
Auckland Council	2.13%
Housing New Zealand	1.36%
Transpower New Zealand	1.35%
Q Card Trust ABS	1.31%

Rating composition

	FUND
AAA	68.56%
AA	17.09%
A	6.99%
BBB	4.80%
NR	2.57%

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	0.01%	0.00%	-0.01%	-0.03%	0.01%	0.04%	0.05%
Duration & yield curve	0.62%	0.22%	0.34%	-2.61%	-1.53%	-0.77%	-0.58%
Relative value	0.00%	0.06%	0.30%	0.39%	0.28%	0.20%	0.24%
Inflation - indexed	-0.06%	0.02%	0.41%	0.63%	0.36%	0.15%	0.17%
Security selection, transaction costs & other	-0.14%	-0.08%	-0.03%	2.86%	1.75%	0.94%	0.83%
Total	0.43%	0.23%	1.01%	1.24%	0.86%	0.57%	0.71%

Outlook and strategy

The US economy is slowing, and further Fed tightening is unlikely. After growing nearly 5% on an annualised basis in Q3, real-time estimates of current quarter growth are 2% on the same basis, led by weakness in the manufacturing sector. Labour market pressures also appear to be easing with slower job growth pushing the unemployment rate higher and reducing the pace of wage gains. Weaker-than-expected inflation proved to be the final nail in the coffin for markets to remove the prospect of additional Fed tightening. While we agree that further Fed rate hikes are unlikely, market pricing of more than 100bp of rate cuts by the end of next year seems at odds with an economy that remains far from recession, core inflation at 4% and an unemployment rate that is historically low.

A global soft landing is still possible in 2024 but there are risks. The consensus for 2024 anticipates a gradual decline in GDP growth to 2.5%, lower than the 3% this year but by no means disastrous. It's a similar story for labour markets that are starting from a point of rude health. Unemployment rates are forecast to rise through 2024 but remain well below historical highs. Inflation is expected to continue its decline but not reach the targeted 2% for most developed economies in 2024. Analysts, however, don't see this stopping most central banks from beginning to cut rates in the second half of 2024. This is a base case, however, and there are still plenty of risks to consider, namely sticky inflation and policy rates having to remain higher for longer, along with Europe and China looking weak from a growth perspective. That's not to mention three major geopolitical conflicts (Ukraine-Russia, Israel-Gaza and China-Taiwan) that continue to have the ability to disturb markets and sit in the context of a possible return of Donald Trump as US President.

The RBNZ shocked many with a hawkish hold at its November MPS meeting. The central bank lifted its OCR path to imply an 80% chance of a 25bp interest rate hike next year. They then also eliminated their prior forecast recession for H2 2023, dropped their unemployment rate forecast, and added to expectations of further house price gains. This is despite almost all the economic data in recent months suggesting monetary policy is working. What appears to have changed is i) the RBNZ is much more worried about high rates of migration being net inflationary (despite most evidence so far suggesting the opposite); ii) the RBNZ's tolerance for inflation above the 1% to 3% band has reduced. They want to see more progress than in August; and iii) they are not impressed with the market's anticipation of rate cuts next year.

Whilst the record 120,000 people that have entered NZ over the past year have been most helpful in alleviating supply pressure in the labour market, growing demand could pose an upside inflation risk. New rent prices are up more than 6% over the past year and house prices have lifted 2% in the past six months. With the prospect of mortgage rate declines in the coming months and the new government's pro-housing policies, the housing market may heat up over the summer. The associated positive impact on residential investment and consumption (via increased demand for furnishings and whiteware, along with the wealth effect) may create unwanted inflation pressure for the RBNZ.

Investment Strategy

Up until the end of October, New Zealand 5-year swap rates had been trending higher, rising to 5.3% from 4.3% in April. Not only was this the highest rate since 2010, but the swap curve also priced in an expectation that the Official Cash Rate (OCR) would only fall to 5.0% by mid-2026, at which time the RBNZ projected an OCR at 4.1%. The market was much more negative than the Reserve Bank. Various factors had led to the rise in yields, with US Federal Reserve comments affecting the US bond market, which then flowed into markets around the world. At that time, we saw the global move as partly a product of position liquidation by investors and considered that the rise in yields across 1 to 5 year maturities in New Zealand to be out of synch with our monetary policy expectations. We increased the Fund's duration position from 0.8 years longer than index at the beginning of October to 1.37 years longer. This was close to our maximum allowable position under the Fund's investment guidelines.

In the early days of November, the US bond market rallied sharply, in response to changing US Federal Reserve comments, weaker activity data and surprisingly benign inflation data. In New Zealand we experienced similar data, with weaker jobs data especially capturing the markets attention, given that the RBNZ had noted the importance of reducing pressures in the labour market. By the 17th November, the 5-year swap rate had dropped below 4.7%, a 60 basis point fall in under 3 weeks. As yields declined we started to reduce portfolio duration, taking the long duration position down to 0.75 years above index at that stage. The Fund duration positioning generated all of the Fund's outperformance for the month, with pricing for inflation-indexed bonds and credit remaining fairly steady on a relative basis.

Later in the month, when the RBNZ released the Monetary Policy Statement, we were surprised to see the shift towards a more hawkish assessment of the inflation outlook. Most notable was their judgement about the impact of very high immigration. Their view is now that immigration is putting more pressure on resources and infrastructure than the benefit of less pressure in the labour market. We are certainly mindful that the within the non-tradable sector of the CPI component basket, rents, council rates, construction costs and insurance are persisting at an elevated level.

Looking ahead, we now have a more balanced outlook for the market. Much of that comes from the fact that yields have declined quite sharply. The Reserve Bank's concerns are also significant. The other notable aspect, is that the government is scheduled to issue a large amount of bonds for the remainder of the fiscal year (to June 2024). This coincides with similar Treasury Bond issuance in the United States. The market may seek a premium to find a clearing price for this issuance. This pressure is likely to continue over the years ahead, as the increased debt position of governments has become a structural issue. At present the market is more pre-occupied with the cyclical macroeconomic forces driving inflation and monetary policy. However all of these factors are important and add to uncertainty going forward. We have retained a long duration position in the Fund, but the size of this is much reduced.

Disclaimer

Data sources:

S&P Dow Jones LLC

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COMPLIANCE CERTIFICATE

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

For month ended 30 November 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 December 2023