Equity Fund

Harbour Australasian Equity Focus Fund

30 NOVEMBER 2023

1 month performance	1 year performance	Fund size	Performance since inception
3.53%	**-0.09%**	**$78,159,729**	**10.76%**
Before fees & tax	Before fees & tax	NZD	Annualised, before fees & tax. Inception 10/4/2014

Fund performance was positive but behind the benchmark for the month. Share markets rallied globally primarily fuelled by a swift transition in market expectation to a soft-landing (interest rates lower without a recession) scenario as falling inflation data cemented expectations that central bank monetary policy is at an inflection point. The related fall in long term bond yields improved share market valuation metrics. Earnings results for the New Zealand share market's September profit reporting season were better than expected. Policies announced by the incoming New Zealand government during the month are mildly supportive for parts of the New Zealand share market. Benchmark index weight changes at month end contributed to increased volatility. In Australia better than expected annual general meeting and quarterly updates supported returns.

Within the portfolio, weakness in investments in Summerset, Xero, Ryman, Aroa and Kathmandu detracted from portfolio performance. Investment in outperformers Mainfreight, CSL, Auckland Airport, Goodman Group and Telix enhanced relative performance.

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, inc. IC	3.53%	-4.66%	-0.09%	-8.33%	-0.06%	7.96%	-	10.76%
Benchmark return, inc. IC	4.86%	-1.90%	0.53%	-0.12%	2.44%	7.70%	-	8.75%

Inception: 10 April 2014. IC= imputation credits. Benchmark: 50% S&P/NZX 50 Index & 50% S&P/ASX 200 Index (50% hedged to NZD). Past performance is not indicative of future results.

Key market movements	1 MONTH	3 MONTH	1 YEAR P.A.	3 YEAR P.A.	5 YEAR P.A.	10 YEAR P.A.
S&P/NZX 50 Gross Index with Imputation (NZD)	5.35%	-1.54%	-1.04%	-3.15%	5.95%	10.08%
S&P/ASX Total Return 200 Index (NZD)	3.59%	-3.08%	1.01%	8.00%	8.96%	6.80%
S&P/ASX Total Return 200 Index (AUD)	5.03%	-1.80%	1.45%	7.15%	8.72%	7.26%

Source: S&P/NZX, Bloomberg.

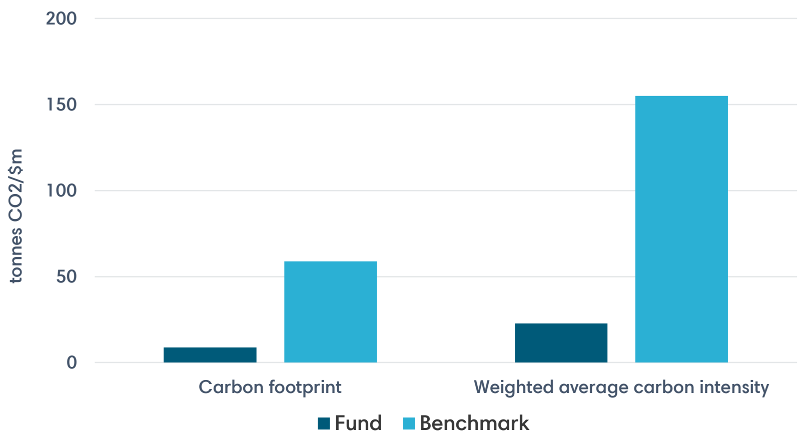
Fund characteristics

	FUND
Return on equity	11.60%
PE ratio forward 12 months	21.9x
Gross yield	2.14%
Expected volatility	15.22%
Hedge on AUD exposure	4.47%

Top 10 holdings

	POSITION
Summerset Group	8.26%
Infratil	7.98%
Mainfreight	7.87%
CSL	7.44%
Auckland International Airport	6.66%
Goodman Group	5.99%
Xero	5.94%
Macquarie Group	5.33%
Ryman Healthcare	4.75%
IDP Education	4.17%

Carbon statistics



Carbon Footprint tonnes CO2e emissions per million NZD invested.
Weighted Average Carbon Intensity tonnes CO2e emissions per million NZD revenue.

Metrics are calculated according to the methodology of the Task Force on Climate-Related Financial Disclosures (TCFD) Implementation Guide. Data is the latest available and represents the portion of the fund invested into public equities. Additional information on screening thresholds and processes are outlined in the exclusions section of our ESG Policy
Carbon data source: Harbour Asset Management, ISS ESG, Bloomberg, underlying fund managers

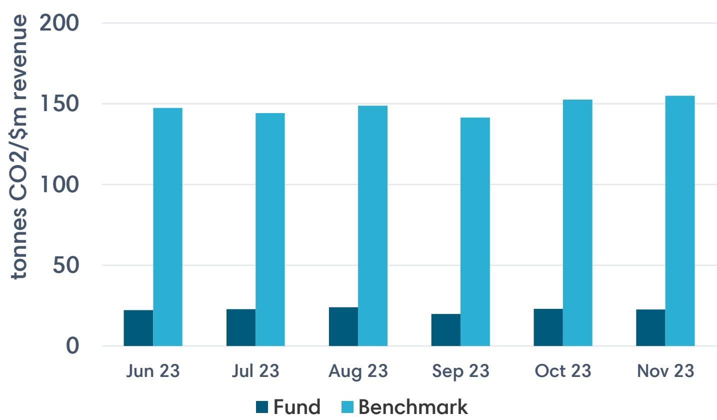
Note: The carbon statistics presented have been adjusted for the extraordinary circumstance of the Channel Infrastructure holding based on data from its latest sustainability report which includes the decommissioning of its refinery operations.

ESG metrics summary

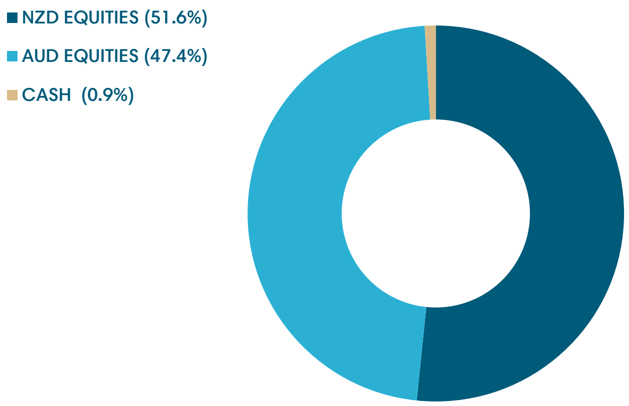
	FUND
Gender diversity (workforce >40% female representation)	58%
Modern Slavery Statement	61%
TCFD Reporting	50%
Majority Independent Board	85%
Science Based Target	23%

Source: Bloomberg, Harbour Asset Management

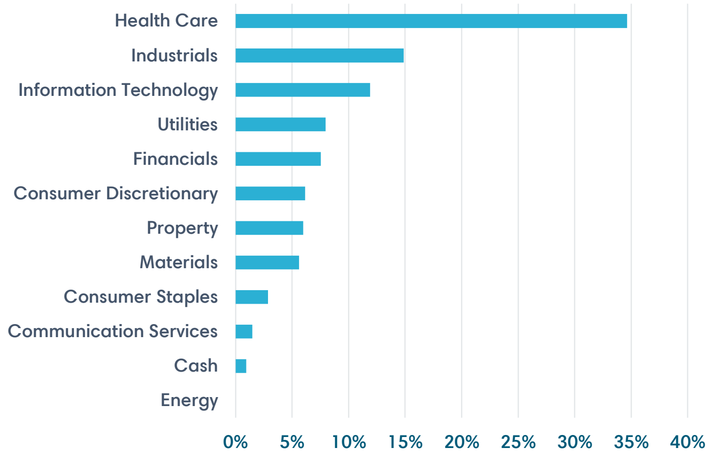
Weighted average carbon intensity



Investment mix



Sector weights



Source: MSCI

Largest contributors	AVE. POSITION	TOTAL CONTRIB.	STOCK RETURN
Mainfreight	7.44%	1.24	17.91%
CSL	6.96%	0.74	11.25%
Auckland International Airport	7.21%	0.57	7.87%
Goodman Group	5.92%	0.47	8.22%
Telix Pharmaceuticals	2.47%	0.31	12.43%

Largest detractors	AVE. POSITION	TOTAL CONTRIB.	STOCK RETURN
Summerset Group	8.40%	-0.38	-4.37%
Xero	5.88%	-0.27	-4.58%
Ryman Healthcare	4.72%	-0.23	-4.84%
Aroa Biosurgery	2.73%	-0.16	-5.73%
KMD Brands	2.16%	-0.15	-7.23%

Outlook and strategy

Global share markets delivered one of their strongest monthly returns (MSCI World Index +9.2%, the 12th best month since MSCI started their indices in 1970) as interest rate expectations were cut from 'higher for longer' to soft landing expectations. The fall in long term bond yields was driven by softer economic data (ISM miss), renewed signs of slowing inflation, and a lower-than-expected US Treasury funding requirement. A continued fall in inflation data points allowed central bankers to deliver 'hawkish pause' (we're not lifting rate but we're ready to if inflation re-emerges) type comments during the month. Weak inflation data contributed to markets starting to price in cuts to official interest rates over 2024. As the rise in bond yields was the key headwind for equities in prior months, the fall in fixed interest yields drove a sharp rally in share market returns.

Locally the New Zealand share market was supported by the combination of the 10-Year New Zealand Government bond yield falling a massive -0.67% from 5.55% to 4.88% during the month and a better-than-expected profit reporting season for the September period. For those New Zealand companies that reported results, there were more beats than misses against earnings expectations. The beats were led by better-than-expected revenue growth offsetting lower profit margins. Dividend reductions were a disappointing stand out, although the reductions were well justified in most cases by the need to preserve capital. Forward earnings forecasts saw more downgrades than upgrades, mainly reflecting lower revenue forecasts. Dividend forecasts also saw more downgrades than upgrades.

Policies announced by the new New Zealand Government including increased labour flexibility, a focus on long-term infrastructure planning, reduced public sector competition risk in electricity generation, the reinstatement of residential property mortgage interest offset improving residential investment metrics, and improved support for private sector provision of aged care and healthcare; have the potential to increase returns for some companies listed in the New Zealand share market over time.

The industrials, healthcare and information technology sectors led the New Zealand share market higher while the consumer staples, consumer discretionary and materials sectors underperformed against the benchmark. The New Zealand market was led up by Fisher & Paykel Healthcare, Mainfreight, Auckland Airport, Meridian, and Spark. Weakness in retirement shares Ryman, Arvida and Summerset, and Kathmandu, Stride and Investore dragged on market returns.

The Australian share market was supported by the mix of the 10-Year Australian Government bond yield falling by -0.51% from 4.93% to 4.42% during the month and a better-than-expected annual general meeting and quarterly updates during the month. Despite the better-than-expected updates, there were more negative revisions than positive revisions to Australian market earnings forecasts over the last month, with the energy, financials and communications sectors all seeing negative revisions. Healthcare, real estate and information technology were the best-performing Australian sectors over the November month, supported by the fall in 10-year bond yields. Energy was the worst-performing Australian sector due to the fall in oil and gas prices, which also impacted negatively on returns from the utilities sector, while consumer staples also delivered a small negative return over the month.

Investors were braced for a weak result from **Mainfreight**, but the actual result proved to be better than expected. Whilst the reported numbers were down on the previous COVID-boosted results, Mainfreight's business has now been reset (particularly for its Air & Ocean division) to a more normalised level with an earnings base which it can grow from. Net profit in the six months ended September 30 fell 43% to $124.5 million, while revenue dropped 22% to $2.36 billion. Operating cashflows declined from $291.4m to $186.8m. Market consensus earnings forecast revisions post the result saw a modest downgrade reflecting reductions in Transport and Air & Ocean earnings offset by an increase in earnings from Mainfreight's Warehousing division. Mainfreight management remains optimistic about the outlook and expectations for profitability, with several business segments continuing to win new business despite near-term cyclical pressure, and upside from efficiency gains supported by network investment yet to be reflected in market consensus profit forecasts. With an undemanding valuation multiple and a long track record of double-digit compound earnings growth, we continue to see Mainfreight as a core overweight portfolio position.

Another COVID beneficiary, healthcare device manufacturer **Fisher & Paykel Healthcare** also reported a moderately better-than-expected result with a small beat on revenue, and a mix shift to the more profitable homecare business driving better margins and overall profit. Fisher & Paykel Healthcare's net profit after tax for the six months ended 30 September was $107.3 million, ahead of the $95m to $105m guidance it had provided and a 12% increase on the same period last year. Management's profit guidance for the full year was held on the revenue line, but with the mix shift it saw a lift in overall profit guidance for the year with a key swing factor being the upcoming northern hemisphere influenza season. Medium term F&P Healthcare's returns will be influenced by new applications consumables revenue growth, hardware revenue, and controlling costs and gross profits margins. The fall in bond yields and reduced concerns around the impact of GLP-1 may also have supported the F&P Healthcare share price over the month.

The fall in bond yields supported returns for large capitalisation bond proxy shares including Auckland Airport, Meridian, Spark, Mercury, and Chorus over the month. Electricity generator and retailer (gentailer) **Meridian**'s October trade statistics point to improving economics for its customer NZ Aluminium Smelter (NZAS Tiwai Point aluminium smelter). Improving green aluminium demand and carbon costs suggests NZAS may be able to pay approximately $60/megawatt hour (MWh, excluding transmission), which is a significant jump from the current $35/MWh being paid, with NZAS set to re-price June 2024. Reduced government policy risk may have also supported the performance of gentailer shares over the month. Rio Tinto management, NZAS's major shareholder, were also purportedly in New Zealand to meet the incoming ministers which is likely the next catalyst for the sector on the decision around the outcome of the NZAS which looks likely to be now pushed into the first quarter of next year.

Spark provided upbeat comments at its annual meeting, reiterating profit guidance, with demand for mobile broadband and information technology services remaining resilient according to management. Spark is focused on managing down operating costs to offset margin declines and inflation. Spark's buyback supported its share price over the month but with the buyback close to completion there is some risk the Spark share price becomes more volatile.

In what could have been New Zealand's largest capital raise, a speculated $2bn plus new equity raise by healthcare distributor **Ebos** faltered at the last minute with investors possibly not comfortable with the prize and size of the equity raisings. Ebos had been in talks to purchase the Greencross's pet store and veterinary clinic assets in New Zealand and Australia from private equity. With the deal falling over, Ebos also provided a trading update which highlighted continued growth in the core business with growth of 8.8% for the first four months of the financial year. Inclusion in a global share index at month end may have supported the Ebos share price.

Infratil reported a solid result with key investments in data centre operator CDC and telecommunications company One NZ providing strong outcomes. Infratil lifted full-year proportionate guidance with increasing confidence from One NZ delivering at the top end of its guidance range. The updated independent valuation for Infratil's US based renewable developer Longroad Energy saw a lift from the size of new projects offset by an increase in the discount rate to present value future cashflows, which was slightly disappointing. Potential for the removal of supportive US government sustainable energy policy should there be change in government at the upcoming US presidential election weighed on sentiment towards Infratil later in the month.

Share price returns for retirement and aged care companies were negative over the month despite signs of improving residential property turnover, improving aged care economics and execution of capital management programmes (lower build rates, reduced care facility build proportions and dividend reductions). While **Ryman**'s result was in line with expectations, **Oceania** and **Arvida**'s results were below expectations – but not as bad as some had expected. Post results consensus earnings forecasts were reduced for all three businesses reflecting a reduction in new unit build rates as the sector focuses on improving profitability and funding future growth. Our research continues to highlight improving fundamentals with higher care fees potentially now more than offsetting increased costs, and 'green shoots' of falling days to sell residential homes supportive of improved cashflows from selling new and existing units. Summerset's removal from the MSCI global index at month end weighed on its share price over the month.

Pacific Edge's first half result was below expectations, with consensus earnings forecasts reduced post result reflecting slightly higher costs. Management continues to progress engagement with US healthcare funder Medicare/Medicaid but have refocused the business to focus on supporting the roll out of its products across its main US private healthcare system provider client Kaiser Permanente. Pacific Edge management remains resolute that they do not need additional equity capital to bridge the next few years of repositioning the business. Pacific Edge's pending removal from the S&P/NZX50 index weighed on its share price over the month.

Travel technology company **Serko** delivered a strong first half result, with consensus earnings forecasts increased post result reflecting higher revenue forecasts. Hotel room night growth is expected to offset softening hotel yields and seasonal weakness in Australasia. Serko continues to offer the potential for strong cashflow growth in our opinion.

Shares in pharmaceuticals company **CSL** recovered over the month supported by the fall in bond yields and perhaps reduced concerns around the impact of GLP-1. Several of CSL's global competitors reported better-than-expected demand for plasma during the month which supports CSL earnings forecasts. Concerns that competitor Argenx's potential new autoimmune treatment would reduce demand for CSL's immunoglobulin products fell during the month after Argenx reported poor study outcomes.

Industrial real estate developer and owner **Goodman Group** provided a first quarter 2024 update which highlighted continued strong operational results with 99% occupancy, rising like-for-like rental growth as they capture under-renting, growing assets under management and a stable development production rate with elevated margins. Management provided more information on Goodman's data centre pipeline which gave comfort to investors on the quantum (3.7GW power bank) as well as delivery timeline (7-10 years) of the data centre opportunity. Goodman management also sees pricing dislocation in certain markets as a good opportunity to buy assets below replacement cost, and Goodman Group have been well positioned to do this given low leverage. Demand supply dynamics remain tight in industrial, and Goodman Group's large development pipeline and solid track record, along with data centre opportunities should drive the growth in earnings over the medium term.

Building materials manufacturer **James Hardie** reported a second quarter 2024 result that was in line with expectations, with management providing third quarter 2024 guidance that was markedly stronger than expectations, contributing to an increase in consensus earnings forecasts. Management's volume expectations point to strong market share growth, while costs remain well-managed and providing potential for solid cash gains. The group is investing in its marketing/brand proposition, which, together with progress in key cost and cash targets, puts the business on a strong footing when markets recover. James Hardie's pivot to actively target the new construction market appears to be paying off, as demand is firm and build times normalise. The recovery in renovations and repair (R&R) is likely slower, but this should materially aid James Hardie's economics in the medium term.

Macquarie Group's first half 2024 result was weaker than expected, with net profit after tax coming in 16% below consensus, reflecting a miss in Macquarie Asset Management (MAM) as no Green Investment Group (GIG) assets were realised. Management expressed strong confidence in these realisations coming through in the second half of 2024. The MAM weakness, combined with elevated expense growth and capital surplus, drove a return on equity of just 9% for the half. Better cost control going forward after a period of heightened investment in compliance and systems should support a recovery in returns. Management reported a strong capital surplus of $10.5bn capital surplus equivalent to ~40% over and above the group minimum requirement, despite having absorbed a $2.4bn headwind from APRA's changes in January 2024. Macquarie management announced a $2bn share buyback which helps address excess capital issues. While there is potential for further downgrades this year on possible deal slippage, the recent movement down in bond yields - if sustained - should support an earnings recovery in financial year 2025, while Macquarie's share price valuation looks attractive relative to its proven return generating track record.

Outlook – Inflection?

An inflection (change in course) in inflation, interest rates and earnings direction provide the potential for a more constructive return environment for New Zealand and Australian share market returns. Share market returns are influenced by corporate earnings, interest rates, and investor demanded risk premiums. Economic activity is likely to continue to slow but recession may be avoided. Inflation has moved to disinflation. Interest rates have stopped going up. And earnings expectations may be near their low. After one of the best months in share market returns for some time, it would be easy to dismiss the change in tone in capital markets, but history suggests such a change in tone can represent a change in trend even if change in trend does not deliver straight line outcomes. With geopolitical risk likely to remain elevated investors should expect periods of elevated market volatility. In this environment we continue to favour investment in growth at reasonable price (GARP) and defensive at reasonable price (DARP) shares that benefit from secular tailwinds.

The 'Goldilocks' scenario of economic slowdown without recession, which allows interest rates to fall without capital market disruption would be a historical rarity. But with central banks now well into restrictive territory (as per comments from US Federal Reserve Chair Powell) markets are anticipating that the Fed and other central banks could cut rates purely in response to disinflation longer term. Economists are projecting 2024 real GDP growth in almost all key regions at a slower run rate than what transpired this year. Bond yields may be in the process of peaking. Initially this move lower in interest rates is a positive for equity markets, but that might not be sustained as earnings forecasts move down with lower activity. Pricing power maybe waning for more cyclical parts of the share market, with profit margins at risk from slowing revenue. Contracting money supply and tight monetary policy is likely to continue to put pressure on manufacturing and employment growth. The worst of the interest rate shock to growth may not be over. While central banks may be at the end of their interest rate hiking cycle they may choose to stay 'higher for longer,' until the potential market/consumer weakness forces them to reconsider. Inverted yield curves (near term rates higher than longer-term rates) have historically been an ominous sign for economic activity (with a lag of typically 12-18 months).

While monetary policy may move to being less restrictive over time, for now we have a gauge on what the new normal is for debt access and the reset normalised cost debt. New Zealand and Australian businesses have moved to reset finances for restrictive conditions. Many companies have improved the focus on cashflow, gearing, interest cover and interest rate hedge terms, often at the cost of near-term earnings growth. While there is potential for a further drag on earnings from a reset of financial structures the bulk of the reduction in earnings may already be reflected in earnings forecasts. Earnings forecasts for the New Zealand and Australian share markets are showing signs of basing after two years of downgrades. We see potential for low earnings expectations to be beaten. The next phase of resetting for the new normal will include businesses revisiting projects that previously met return hurdles no longer do and disposing of non-core business activities. Historically these periods of increased focus on fundamentals have contributed to better returns for investors.

After the recent rally in global share markets the current risk return proposition may not be compelling as it was, and we may see a period of consolidation in global equity markets. The New Zealand and Australian markets may be the exception, with less valuation froth and potential for an earnings recovery. Post the September reporting season earnings forecast downgrades the New Zealand share market is currently being priced at a 21.1x price to one year forward earnings per share forecast multiple (PE), a 4% premium to its 5-year average (excluding the January 2020 to January 2022 impacted covid period) of 20.3x. The New Zealand share market currently offers a gross dividend yield of 4.8% post recent forecast cuts which is becoming more attractive relative to 10-year New Zealand government bond yields trading below a yield of 5%. The Australian share market is currently being priced at a 15.1x PE, a 2% premium to its 23-year average of 14.8x. The Australian share market currently offers a dividend yield of 4.25% post recent forecast cuts which is becoming more attractive with 10-year Australian government bond yields trading below a yield of 4.5%.

Investors remain under invested in New Zealand and Australian shares relative to long term targets. When we look at what historically works in share markets after a pause in central bank hiking cycles past pauses have favoured defensives, bond proxies, and reasonably priced structural growth shares. If inflation and economic growth continue to slow globally the New Zealand markets mix of defensive and growth at a reasonable price, offering lower volatility, steady returns may become interesting to investors. While strong migration may be providing a near term increase to New Zealand and Australian inflation it will provide a boost to medium term growth that other economies may not have. The New Zealand and Australian share market may not have the 'magnificent seven' US tech shares but it does have some great compound growth companies that have the potential to grow investor wealth over time.

Harbour portfolio positioning

Harbour's strategy remains to position for a range of scenarios and to be selective. The potential to return to a pre covid lower growth, lower inflation environment supports our continued favouring of investments with structural tailwinds that are less dependent on strong economic activity. We continue to see technology disruption, de-carbonisation, and demographic changes as supporting company earnings. Within the portfolio we are selectively overweight growth at a reasonable price (GARP) shares in the healthcare, information technology and services sectors given they offer the potential for compound growth. We also favour selected Defensive at a reasonable price (DARP) shares, preferring non-cyclical growth channels and or income streams that are tied to inflation and positive secular trends. We remain wary on cyclicals that are dependent on a recovery in consumer and corporate confidence. We favour businesses with productivity and efficiency 'self-help' programmes, particularly where business reengineering introduces technology that improve both revenue and cost structures. We continue to have a bias to quality, well-capitalised businesses that are less vulnerable to a tightening in financial conditions.

Disclaimer

COMPLIANCE CERTIFICATE

Harbour Australasian Equity Focus Fund (the "Fund") (Wholesale Unit Trust)

For month ended 30 November 2023

Harbour Asset Management Limited certifies that, to the best of our knowledge, after having made reasonable enquiries and except as specified in this certificate, the Fund has been managed in accordance with the investment mandate parameters defined in the Conditions of Establishment for the Fund.

Tim Morrison
Head of Compliance
Harbour Asset Management Limited

Dated 04 December 2023