Harbour
ASSET MANAGEMENT

# SUSTAINABILITY REPORT
2022

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## PART ONE



## PART TWO



Cover: Lake Moke, Queenstown

# MESSAGE FROM THE MANAGING DIRECTOR

Last year we launched our first Sustainability Report which shared our Environmental, Social and Governance (ESG) investment process, our key engagement outcomes with the companies we invest in, and our approach to sustainability as a company.

Our community is increasingly concerned about the environmental and social impact of their investments and where they spend their money. We believe in evolving our approach in order to achieve better sustainability outcomes for our clients. This report outlines our sustainability journey in 2022, as we continued seeking to raise the bar in generating positive, measurable social and environmental impact alongside a financial return.

Assessing the sustainability performance of investments can be an art as well as a science because there is room for both ESG data and a dialogue with companies to influence an assessment. This is why we take an active engagement approach in our investment process – using in-house research and external ESG rating providers to get a balanced view of sustainability performance (rather than only screening for negative behaviour). Engaging with companies to influence an ongoing improvement in corporate behaviour over a broad range of matters we think will have a better outcome for our clients. Our local Corporate Behaviour Survey has enabled us to continue to make great strides towards improving ESG practices across a broad range of factors.

In 2022 ESG regulatory developments continued at speed at both a global and local level. Globally, the first cross-border tax on carbon (known as the EU Carbon Border Adjustment Mechanism) was passed, the introduction of the

Sustainability is an integral part of both our investment process and our team values. Harbour is a market leader for integrating ESG research into our investment process, and we have been signatories to the UN Principles of Responsible Investment since August 2010.

## MANAAKI WHENUA, MANAAKI TANGATA, HAERE WHAKAMUA.

## CARE FOR THE LAND, CARE FOR THE PEOPLE, GO FORWARD.

US Inflation Reduction Act has been a major development for the energy transition, and new rules addressing greenwashing, such as Australia's taxonomy discussion paper may bring greater transparency and trust for investors.

Locally, the inaugural Aotearoa New Zealand Stewardship Code was launched, aiming to raise the standard of engagement and voting practices across the investment industry. Harbour signed up to the Code as a founding signatory, committing us to comply or explain against these principles on an ongoing basis. The first Government emissions reduction plan may further steer Kiwi companies towards better sustainability practices. New mandatory climate reporting standards mean large financial market participants will need to disclose climate related activity. Harbour was actively involved in this consultation process.

Harbour's Footprint Committee (a voluntary group of representatives across the team) led a variety of initiatives in 2022 to help make a positive community impact. This included drafting policies and supporting initiatives covering diversity, equity and inclusion, as well as protecting against worker exploitation and modern slavery, including a supplier code of conduct. We also continued our long-term support for Roots of Empathy and volunteered for The Graeme Dingle Foundation's Career Navigator programme and Everybody Eats.

Positive change doesn't have to be big, but it needs to start now, and it's up to everyone to play their part. I hope this report provides you with transparency and insight into Harbour's sustainability journey, as we focus on taking sustainable investing forward and making a positive impact.

Ngā mihi nui
**Andrew Bascand,**
**Managing Director**

## 2022 HIGHLIGHTS

RIAA Responsible Investment Leader 2022

Won Research IP's Responsible Investment Manager of the Year 2022

Founding signatory to Aotearoa New Zealand Stewardship Code

Invested 28% less in carbon intensive assets on average, compared to fund benchmarks*

Raised $14,000 for Roots of Empathy charity, and staff volunteered 168 hours to a number of community programmes

* Based on the median of Harbour funds weighted average carbon intensity relative to benchmarks as at 31 December 2022

# OUR APPROACH TO RESPONSIBLE INVESTING

Environmental, Social and Governance (ESG) considerations play a central role in our investment philosophy and process. We believe that companies that manage ESG considerations well are more likely to create shareholder value, with a reduced risk profile, compared to those who do not.

We are a market leader for integrating ESG research into our investment process, using a combination of in-house research and external ESG rating providers to get a balanced view of sustainability performance. Our choice of ESG providers is reviewed on a regular basis to ensure consistency with our overarching responsible investing philosophy and whether they are best meeting our business' and clients' needs given the rapidly evolving nature of the industry.

Our New Zealand Corporate Behaviour Survey has been running since Harbour's inception. It measures and evaluates ESG matters and has proven to be a useful tool in addressing issues relating to climate change, diversity, inequality and wellness within companies we engage with.

This integrative approach helps our portfolio managers develop an understanding of each company, and influences not only whether we invest in companies, but also how much. It helps us to unearth companies which may be great opportunities for long term growth, identify companies with potentially hidden risks and use our influence to encourage better corporate behaviour in relation to ESG issues.

**Our annual Coporate Behaviour Survey researches how companies rate on issues like:**


- Carbon emissions
- Energy use
- Waste
- Environmental policies and risk management

- Health and safety
- Modern slavery
- Stakeholder relations
- Diversity

- Board composition
- Executive remuneration and incentives
- Ethics
- Anti-competitive practices


## Base exclusions

In all Harbour funds, we screen for a base level of exclusions, for industries or sectors which we believe cause significant societal or environmental harm.

In 2022 we did not invest in companies that, to our knowledge, derived any revenue from the:

- The manufacture of tobacco, nicotine alternatives and tobacco-based products
- The manufacture or testing of nuclear explosive devices (NEDs)
- The manufacture or sale of chemical and biological weapons
- The manufacture or sale of cluster munitions
- The manufacture or sale of anti-personnel mines
- The manufacture or sale of recreational cannabis
- The production of pornography
- The manufacture or sale of civilian automatic and semi-automatic firearms, magazines or parts

We utilise an external ESG provider (currently ISS ESG) to provide screening services to ensure the active monitoring and compliance of these exclusions. These services allow us to distinguish between the type and extent of business involvement i.e. manufacturing vs. distribution & sales, and determine the revenue exposure. In addition, the excluded list of securities is coded into our compliance system as restricted securities for an extra layer of robustness, thereby preventing their inclusion.

# HOW DO WE ADDRESS CLIMATE CHANGE?

Sustainable principles are integrated into our core objectives, which all staff are measured against and expected to contribute to. This includes considerations about staff air travel (combining trips, utilising technology etc.) and reducing waste.

Walking the talk – we are a certified carbon zero business by Toitū and have clear targets for climate mitigation in line with the 1.5°C challenge. Our carbon credits are sourced via an emissions avoidance project which converts traditional coal-fired stoves into sustainable waste gas from rubbish dumps for housing and small businesses.

TOITŪ
NET CARBON ZERO
ISO 14064-1 ORGANISATION

Our investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. A recent example is our investment in an Australian industrial technology company called Calix which provides solutions across several industries to decarbonise. The primary opportunity for Calix is to decarbonise the cement and lime industry through its low emissions intensity lime and cement kiln that runs purely on renewable energy.

Trelissick Park Bush Regineration (Above and next page)

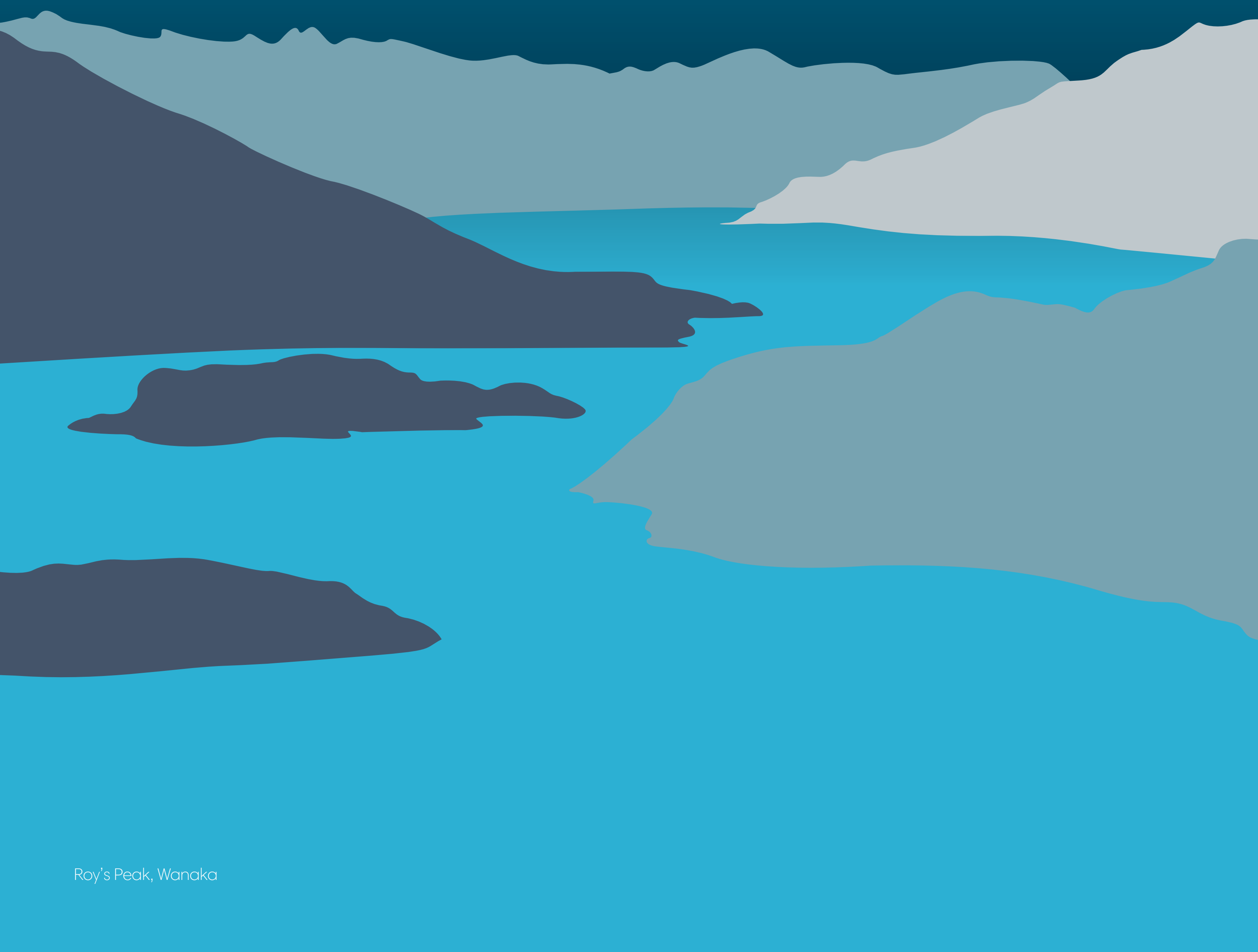
Volunteering at Ngā Manu Reserve, Kāpiti

## The 1.5°C challenge

is an ambitious climate change target which seeks to limit global warming to 1.5 degrees Celsius above pre-industrial levels. In the 2015 Paris Agreement nations including New Zealand pledged to meet a target of 2°C and to "pursue efforts" to keep the global temperature increase at 1.5.

# PART ONE

## 2022 Sustainable Investing Update



Roy’s Peak, Wanaka

# A TIMELINE OF ESG INVESTING AT HARBOUR

**2009**
Harbour founded, Corporate Behaviour Survey tool developed

**2010**
Became UNPRI and CDP signatories and member of the NZ Corporate Governance Forum

**2014**
ESG analyst hired (Blaine Abraham)

**2017**
ESG Policy published

**2018**
Became member of RIAA

**2019**
Internship, Laura Albiston undertook carbon research project

**2020**
Internship, Selina Chan undertook EV research project

**2020 - 2021**
Internship, Purvai Gupta undertook social ESG research project

**2020**
Full time ESG manager resource (Jorge Waayman) allocated

**2021**
**APRIL**
Sustainable NZ Shares Fund launched

**2021**
**JUNE**
Harbour Australasian Equity Fund endorsed as Mindful Fund

**2021**
**SEPTEMBER**
Became a member of the Centre for Sustainable Finance Investment Implementation Group

**2021**
**DECEMBER**
Sustainable Impact Fund launched

**2022**
**FEBRUARY**
Harbour Sustainable NZ Shares Fund and Harbour Australasian Equity Focus Fund endorsed as Mindful Funds

**2022**
**JUNE**
First annual Sustainability Report published

**2022**
**SEPTEMBER**
Became a founding signatory to the Aotearoa New Zealand Stewardship Code

**2022**
**OCTOBER**
First annual Impact Fund Report published

# 2022 AWARDS, CERTIFICATIONS & RECOGNITION

We are proud to have won a number of sector awards and finalist titles in 2022. Our fundamental goal is to be most trusted by our clients, and awards and reviews from independent organisations such as Morningstar, Research IP and Mindful Money help to validate this.

## MINDFUL MONEY AWARDS

**Highly Commended:** Best Ethical Retail Investment Fund Provider
**Finalist:** Best New Ethical Fund (Harbour Sustainable Impact Fund)

## KANGANEWS

**Winner:** New Zealand Fund Management House of the Year - Fixed Interest

## MORNINGSTAR

**Winner:** Fund Manager of the Year Domestic Equities (Harbour Australasian Equity Income Fund)
**Finalist:** Fund Manager of the Year
**Finalist:** Fund Manager of the Year NZ Fixed Interest
**Finalist:** Fund Manager of the Year Global Fixed Interest (Hunter Global Fixed Interest Fund)

## RESEARCH IP

**Finalist:** Fund Manager of the Year
**Winner:** Responsible Investment Manager of the Year
**Winner:** Australasian Fixed Interest Sector (Harbour Enhanced Cash Fund)
**Finalist:** Australasian Equities Sector (Harbour Australasian Equity Income Fund)

## Responsible Investment Association Australasia recognition and certification

Harbour was recognised as a Responsible Investment Leader again in 2022 by RIAA. This acknowledges our commitment to responsible investing, our explicit consideration of environmental, social and governance factors in investment decision-making, our strong and collaborative stewardship, and our transparency in reporting activity, including the societal and environmental outcomes being achieved.

The Harbour Australasian Equity Fund, Harbour Australasian Equity Focus Fund and Harbour Sustainable NZ Shares Fund have been certified by RIAA, according to the strict operational and disclosure practices required under the Responsible Investment Certification Programme. The Certification Symbol signifies that an investment product or service has implemented an investment style and process that takes into account environmental, social, governance or ethical considerations.

The Responsible Investment Certification Programme does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. For more information see **here**.

## Aotearoa New Zealand Stewardship Code – Founding Signatory

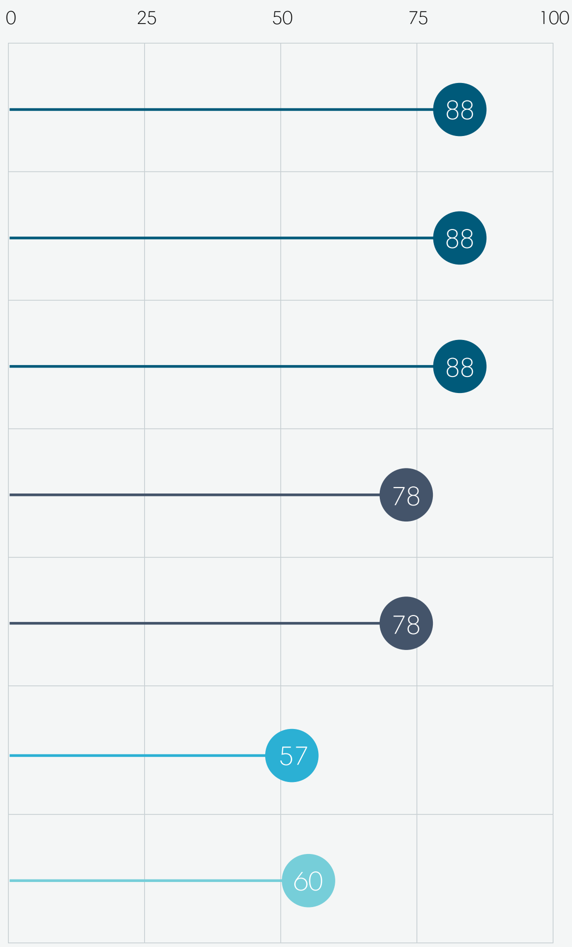
The inaugural Aotearoa New Zealand Stewardship Code was developed during 2022 as a key framework to guide investor behaviour on engagement and voting practices. We played an integral role in the formation of the Code, being the only asset manager representative on the steering committee of this industry-led initiative. Harbour became a founding signatory to the Code to demonstrate our commitment to stewardship and has been actively involved in promoting the Code for further adoption amongst the investment community.

## Principles of Responsible Investing (PRI) Assessment Report

A snapshot of the latest PRI review of our responsible investment practices is provided below. Harbour's full transparency report is available on the PRI **website**

Note: These scores relate to information submitted for the 2021 reporting period given delays in the reporting cycle.

| Module score | Star score | AUM coverage |
|---|---|---|
| Investment & Stewardship Policy | ★★★★☆ | |
| Direct - Listed equity<br>- Active quantitative - incorporation | ★★★★☆ | <10% |
| Direct - Listed equity<br>- Active fundamental - incorporation | ★★★★☆ | >50% |
| Direct - Listed equity<br>- Active quantitative - voting | ★★★★☆ | <10% |
| Direct - Listed equity<br>- Active fundamental - voting | ★★★★☆ | >50% |
| Direct - Fixed income - SSA | ★★★☆☆ | >=10 and <=50% |
| Direct - Fixed income - Corporate | ★★★☆☆ | >=10 and <=50% |



# 2022 ESG INVESTING DEVELOPMENTS

## Global

It was a challenging year for ESG investing in 2022, with net outflows in global ESG Exchange Traded Funds (ETFs) for the first time* given the volatile macro environment, European energy crisis and geopolitical tensions. However, it was also a pivotal year in terms of new regulations, particularly in Europe and the United States, including the EU Carbon Border Adjustment Mechanism, the US Inflation Reduction Act and rules addressing greenwashing.

The conflict in Ukraine caused substantial disruption both from a humanitarian and economic perspective. On the economic side, it led to a spike in energy prices, gas shortages and uncertainty in European energy supply. This resulted in European policymakers implementing multiple emergency measures to address this such as mandatory power savings, a cap on excess market revenues from power generators and a levy on surplus fossil fuel company profits. In addition, temporary regulation was passed to accelerate the permitting process for deploying renewable energy sources such as solar equipment and heat pumps.

**THE FOCUS IS NOW ON SCRUTINISING THE LEGITIMACY OF NET ZERO PLEDGES AND OTHER SUSTAINABILITY CLAIMS**

On the international trade front, legislators have passed the first cross-border tax on carbon, known as the EU Carbon Border Adjustment Mechanism, to ensure imports from offshore producers of carbon-intensive products like cement and aluminium are subject to equivalent carbon costs as domestic producers. This represents a move towards a global price for carbon as differences between carbon costs faced by several trading partners are minimised.

In the US, the introduction of the Inflation Reduction Act has been a major development for the energy transition. It has and will continue to impact many sectors of the market and isn't just renewables-driven but also focuses on infrastructure (electric vehicle networks, carbon capture, hydrogen) as well as energy efficiency. The Act has an estimated US$390 billion+ in climate spend potential and will complement the expected spending from a range of state-level and private sector initiatives.

Greenwashing has become more of a concern amongst regulators particularly with the proliferation of net zero pledges and other sustainability claims made by companies and investment managers. The focus is now on scrutinising the legitimacy of these claims with a growing pressure to substantiate them with appropriate plans to meet the targets established. In the case of the Australian Securities and Investments Commission, they have published new guidance over the last year outlining their expectations on green-labelled products and subsequently issued fines to four companies based on greenwashing. In the US, the Securities and Exchange Commission has also been active in proposing rules on ESG labelling for investment managers to tackle greenwashing and prevent misleading claims. From a global perspective, significant progress has been made in standardising corporate ESG information through a new reporting framework in development by the International Sustainability Standards Board that should further combat greenwashing risk over time.

* Source: Bloomberg

### Domestic

Similarly, the sustainability landscape in New Zealand has been shaped by some key regulatory and industry developments over the year. These include the first Government emissions reduction plan, mandatory climate reporting standards and the launch of the Aotearoa New Zealand Stewardship Code. Progress has also been made in moving towards legislative requirements on modern slavery due diligence and reporting.

After considering the advice from the independent Climate Change Commission, the Government produced its first cross-sector plan to reduce emissions over the next five years according to the initial emissions budget period. Although detail was lacking on some long-term policy initiatives, it is clear that there will be higher costs for some companies facing more stringent regulation, but also benefits from government funding for climate-related opportunities.

The climate-related disclosure legislation for New Zealand has put a spotlight on reporting practices with those entities captured due to provide their first round of compliant disclosures in 2024. The External Reporting Board (XRB) has been responsible for developing the standards to guide these disclosures which they have now completed after taking a highly consultative approach. Harbour was actively involved in this process, providing a submission to the XRB during one of the consultation rounds on our views.

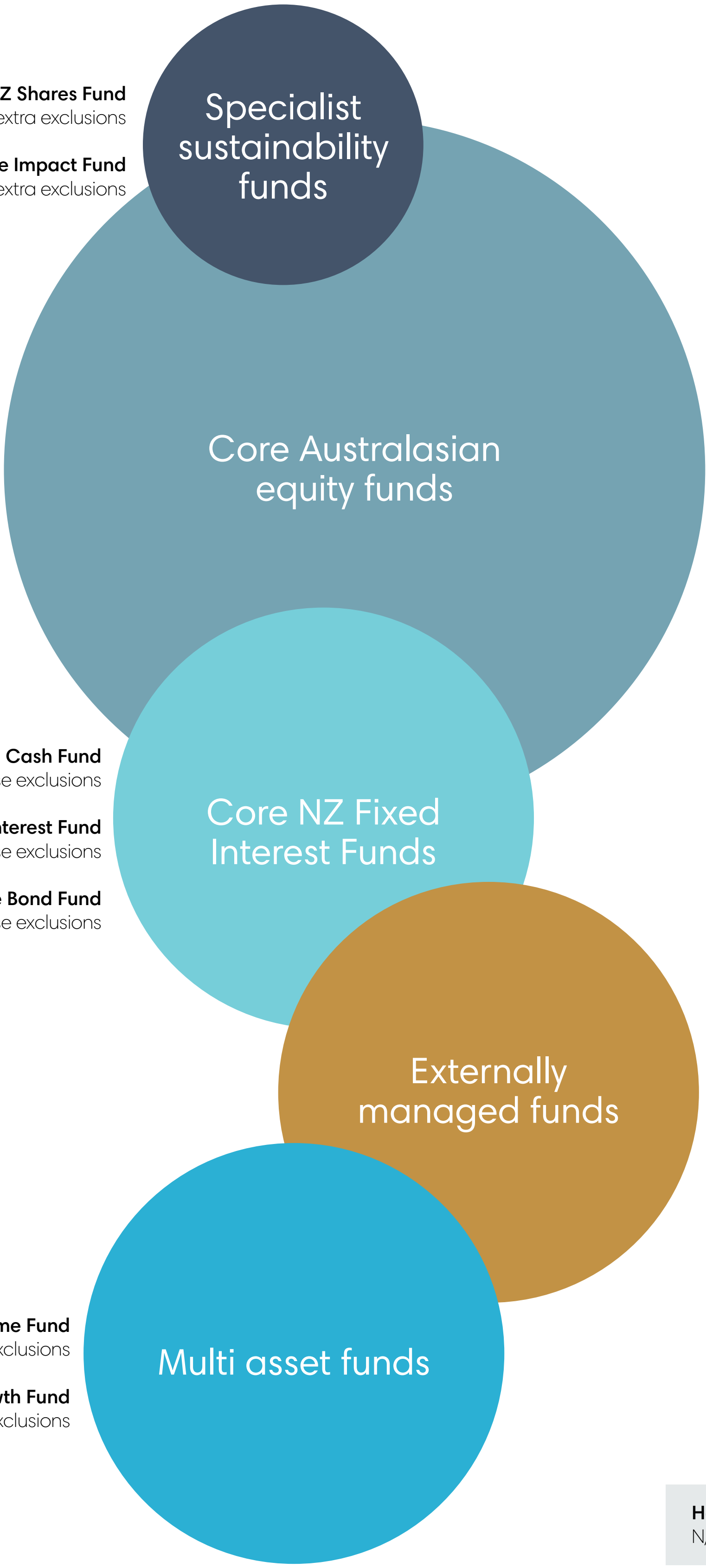
The development of the industry-led Aotearoa New Zealand Stewardship Code was completed during the year and officially launched at the RI Aotearoa New Zealand Conference. This Code aims to provide a principles-based guide for asset managers and owners on best practice engagement and voting to create long term value for the benefit of clients, beneficiaries, the environment, and society. Harbour signed up to the Code as a founding signatory, committing us to comply or explain against these principles on an ongoing basis. We were also involved in promoting the Code to encourage industry adoption through various events and seminars.

The New Zealand Government also took steps towards developing modern slavery legislation and conducted a public consultation during the year on proposed requirements for all businesses, varying based on their size. These ranged from taking appropriate action if modern slavery is discovered in local operations to extensive due diligence and reporting on international operations and supply chains for those larger businesses. This legislation looks to align and build on the existing modern slavery legislation in Australia with some NZX companies already captured by this if they are dual-listed.

### Summary

Overall, the year has marked significant progress, particularly in the sustainable finance space, with the launch of the inaugural Aotearoa New Zealand Stewardship Code that should help promote improved engagement and voting practices across the investment industry. Action toward mitigating and adapting to climate change from companies continued albeit hindered by macro shocks from the COVID pandemic and the conflict in Ukraine. Nevertheless, encouraging progress was seen from large listed companies like Genesis and Contact Energy who play a key role in the energy transition for New Zealand. Climate change is expected to stay high on the radar for NZX-listed companies looking forward as we enter the first reporting period under the new climate-related disclosures regime.

# OUR FUNDS IN 2022




**Harbour Sustainable NZ Shares Fund**
Integration and extra exclusions

**Harbour Sustainable Impact Fund**
Impact, integration and extra exclusions

**Harbour Australasian Equity Fund**
Integration and base exclusions

**Harbour Australasian Equity Income Fund**
Integration and base exclusions

**Harbour Australasian Equity Focus Fund**
Integration and base exclusions

**Harbour Long Short Fund**
Integration and base exclusions

**Harbour Real Estate Fund**
Integration and base exclusions

**Harbour Enhanced Cash Fund**
Integration and base exclusions

**Harbour NZ Core Fixed Interest Fund**
Integration and base exclusions

**Harbour NZ Corporate Bond Fund**
Integration and base exclusions

**Harbour T. Rowe Price Global Equity Fund**
External

**Harbour T. Rowe Price Global Equity Fund (Hedged)**
External

**Hunter Global Fixed Interest Fund**
External

**Harbour Income Fund**
Integration and base exclusions

**Harbour Active Growth Fund**
Integration and base exclusions

**Harbour NZ Index Shares Fund**
N/A – passive fund

## SPECIALIST SUSTAINABLE FUNDS

### Harbour Sustainable NZ Shares Fund

This Fund is designed to track the S&P/NZX50 Portfolio Index, with exclusions to companies that are exposed to large carbon emitters, alcohol, gambling, munitions, adult entertainment, nuclear armaments, firearms, tobacco and recreational cannabis, child labour and companies with human and animal right violations. There are also positive and negative tilts to the remaining companies based on Harbour's proprietary Corporate Behaviour Score, which has been a core part of our equity investment processes for over a decade.

### Harbour Sustainable Impact Fund

This Fund provides exposure to a mix of domestic and global investments with a focus on the positive impact that these will have on various objectives linked to the United Nations Sustainable Development Goals (SDGs).

While the Fund has been designed to have a lower carbon footprint than the market benchmark, any carbon held in the Fund is offset by Harbour, through investment in projects which actively prevent carbon release and contribute to multiple UN SDGs.
The Fund invests approximately 20% in domestic impact equities and 40% in domestic impact fixed interest (both managed by Harbour), as well as approximately 35% in global impact equities and 5% in impact private equity (managed by sector specialist managers).

## CORE AUSTRALASIAN EQUITY FUNDS

We use quantitative screens in our investment process to rank investment opportunities.

Our ESG score is included in all active Harbour equity funds' quantitative screens along with other fundamental factors in the investment process. All other things being equal, a higher ESG score results in a better overall security ranking. These rankings are categorised into deciles that are further filtered into a traffic light classification where the top three deciles are the 'green zone' and the bottom three are the 'red zone'. Our portfolio managers tend to select and overweight securities in the green zone and avoid/underweight companies in the red zone.

Securities are not excluded solely based on ESG scores. High risk ESG issues within companies, or issues of concern, are discussed between analysts and portfolio managers during the selection process. Companies with poor ESG scores are engaged where appropriate, to encourage the improvement of corporate behaviour.

## CORE NZ FIXED INTEREST FUNDS

Our fixed interest team utilises both the Harbour Corporate Behaviour Survey and MSCI research, in addition to conducting its own ESG research into unlisted bond issuers. The team uses this research to both engage with companies, and also identify companies whose behaviour may lead to untenable risks.

As for the equity process, the fixed interest process goes beyond just setting exclusions based on moral judgements on industries. It assesses a company's behaviour and conduct relating to ESG considerations, and whether they are on a committed path to improvement. This is done through systematic sector-by-sector meetings by the team to evaluate each issuer's management of ESG aspects and issues.

This process leads to a three-tiered classification system where securities are either favoured, neutral or avoided in portfolios. Neutral and avoided issuers are still engaged with to promote improved behaviour.

## EXTERNALLY MANAGED FUNDS

External managers are used for our global equities fund (T. Rowe Price), and our global fixed interest fund (branded Hunter, PIMCO being the underlying manager). External managers, at a minimum, must be aligned with two key principles:

1. Have a firm-wide commitment to improving ESG outcomes for investors. This commitment can be shown through active membership of industry groups (such as being a UN PRI signatory, a member of RIAA or other industry leadership groups) and through other ESG firmwide initiatives.

2. Satisfy us during the due diligence process that they meaningfully integrate ESG into their investment decision making process .

On an ongoing basis we also:

- Undertake independent carbon footprint analysis of external equity managers to measure the carbon intensity of their portfolio relative to benchmark. Adverse results are raised with the manager in the first instance.

- Engage with their responsible investment team to share our views of best practice and identify areas for improvement. Like Harbour, all external managers have proxy voting policies and are active owners. They all provide us with regular reporting on votes with and against management. The results of this show a strong depth of challenge to management voting.

## MULTI-ASSET FUNDS

Multi-asset funds are a combination of Australasian investments managed by the Harbour team, and externally managed funds. This means that our multi-asset funds combine the approaches we have described for internally managed Australasian equities and fixed interest and externally managed funds where applicable.

# STEWARDSHIP

Our engagement over 2022 remained centred on climate change and key social issues such as modern slavery and employee wellbeing. Domestic developments in the climate space, including the inaugural Emissions Reduction Plan from the New Zealand Government and completion of climate reporting standards by the XRB, helped focus company efforts on climate mitigation and adaptation and shaped our conversations with them.

At the company level, engagements related to climate change have focused on transition plans (i.e. detail on how they are intending to decarbonise their operations and meet their emissions reduction targets). This has often involved discussing emerging technologies like hydrogen, electric vehicle adoption and innovation in industrial processes. Engagement has been prioritised by targeting the largest emitters in our local market and, in general, these companies have shown encouraging progress in developing initiatives and investing in low carbon solutions to meet their climate strategies.

**ENGAGEMENT HAS BEEN PRIORITISED BY TARGETING THE LARGEST EMITTERS IN OUR LOCAL MARKET.**

We have also engaged on climate change at an industry level by providing a submission on the climate reporting standards being developed in New Zealand and have been collaborating with peers on a project to standardise the use of climate scenario analysis across investment portfolios.

Regarding social issues, one of the trends observed from company sustainability disclosures was the uptick in employee turnover rates compared to past years. This led to us querying companies to better understand what was driving this change and whether it was a company-specific issue or an outcome of wider macro movements. In most cases this was simply a function of the tightness in the labour market, with expectations for these levels to moderate again over time. It will continue to be an issue we monitor closely to ensure companies are still implementing strong talent retention programmes through appropriately remunerating employees and other wellbeing initiatives.

Another major development over the year has been the introduction of the Aotearoa New Zealand Stewardship Code that aims to provide a principles-based guide for asset managers and owners on best practice engagement and voting to create long term value for the benefit of clients, beneficiaries, the environment, and society. Harbour was closely involved in the drafting of the code and engaged with the industry both as part of the consultation process and through actively promoting the code once it was completed.

**HARBOUR WAS CLOSELY INVOLVED IN THE DRAFTING OF THE AOTEAROA NEW ZEALAND STEWARDSHIP CODE.**

Our engagement strategy also continued to capture companies with contentious ESG issues such as board composition and executive/director remuneration, particularly around company AGMs. There were a number of companies that proposed increases to director remuneration levels which often involved discussions with the management or board to better understand the rationale and assess whether they were justified. There were also cases where companies were paying performance-based compensation to non-executive directors which is contrary to best governance practice.

These targeted engagements were supplemented by our Corporate Behaviour Survey process which is our primary way to comprehensively assess how well each company in our New Zealand investment universe is addressing ESG considerations with engagement playing a key part.

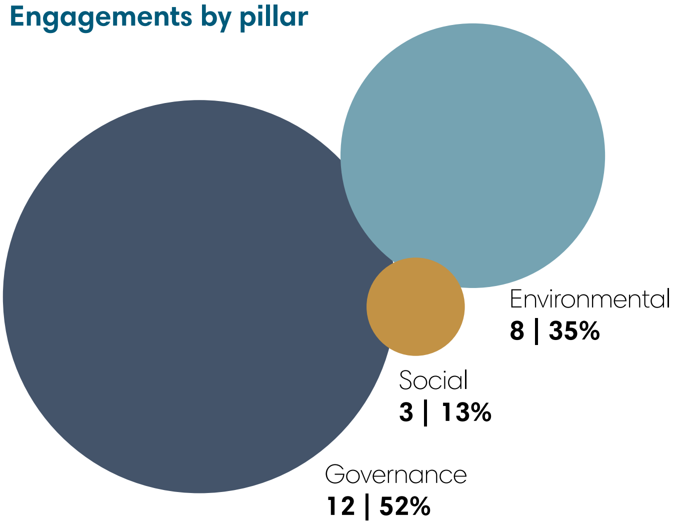
More information can be found in our **ESG policy**.

# ENGAGEMENT BREAKDOWN

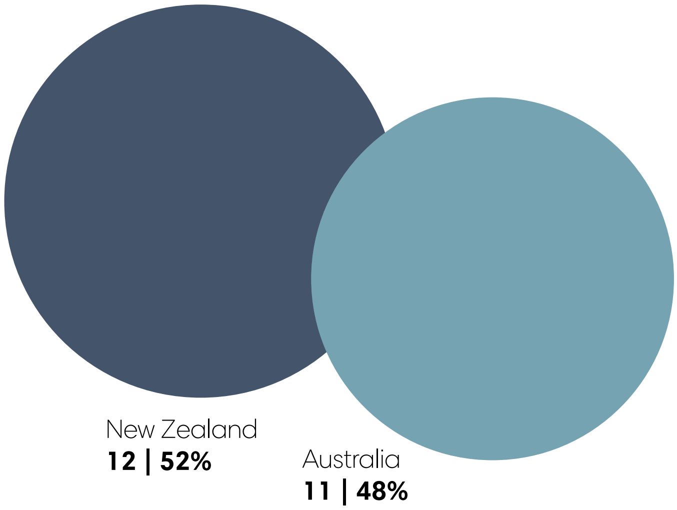
During the year we conducted 23 ESG related engagements on ad hoc issues in addition to the engagements we conduct annually as part of our Corporate Behaviour Survey process.

For the ad hoc engagements, these were fairly balanced between New Zealand and Australian companies (12 and 11) out of the total 23 conducted. This was despite Harbour portfolios proportionately having a larger weighting to New Zealand companies compared to Australia, driven by a higher number of contentious governance issues for Australian companies during the year.

**Engagements by pillar**

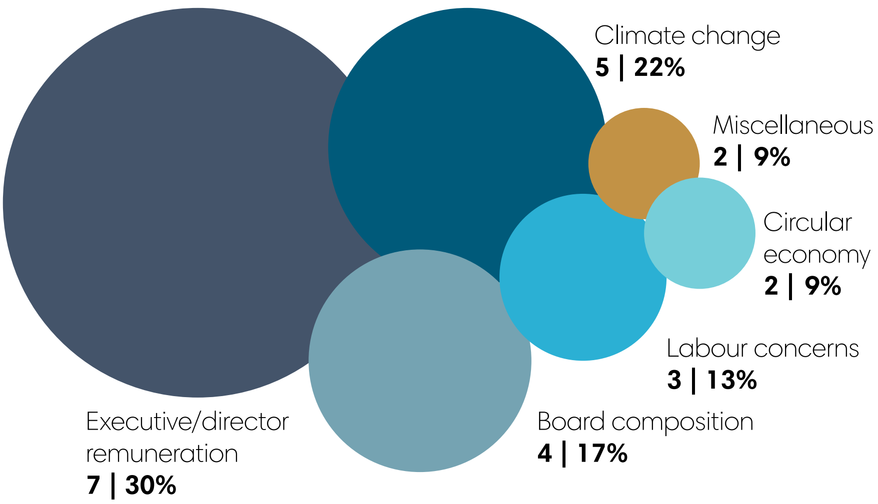



**Engagements by geography**




There were a variety of different ESG issues covered in these engagements and, in some cases, they involved multiple interactions with the company. As part of our process, we engaged with five companies on climate change, three on social aspects (including modern slavery) and two on circular economy. We continued to engage on AGM resolutions relating to board composition through four director election engagements, and seven on executive/director remuneration. There were also two on miscellaneous ESG issues.

**Engagements by theme**




Outcomes from these engagements were generally constructive with many of the companies receptive to our concerns and, in some cases, taking action to improve on the issues identified, as demonstrated through the case studies below. We are aware that some of these issues are long-term in nature and take time to enact change. We are both patient and confident companies will eventually make the appropriate adjustments, but we will continue to monitor and liaise with them until these are made.

# EXAMPLES OF OUR ESG ENGAGEMENTS

## Case Study 1:

We engaged with the CFO of an Australian materials company on board composition. At the company's AGM, one of the resolutions to re-elect a director was considered contentious on the basis that the board lacked independence and gender diversity.

The context of the company was acknowledged, namely that it is small and highly technical with this particular director bringing important institutional knowledge to the board which is needed at this point in time.

**Outcome:** After discussing with the company, we decided to vote in support of the director's re-election given the commitment that the board would be refreshed in the medium term to address the independence and diversity concerns.

The company noted they would be announcing at least one new non-executive director in the near future and that three out of the four-person shortlist were women.

## Case Study 2:

We engaged with senior management of a New Zealand retail company on how they are contributing to the sustainable development goals, in particular their efforts to combat modern slavery given the high risk in their supply chain due to the industry they operate in.

Specifically, we aimed to find out how they measure the efficacy of their approach and provide examples of working with their suppliers in the prevention or remediation of modern slavery.

**Outcome:** The company detailed how they are at the forefront of advising the Government on developing modern slavery legislation in New Zealand and how they co-founded a collaborative initiative with peers to help collectively address the problem. They also provided tangible examples of both positive and negative supplier engagements based on evidence of bonded labour and other human rights abuses.

## Case Study 3:

We have had multiple conversations with the board and senior management of a New Zealand utility company over the past couple of years on the company's emissions exposure and transition to a greater proportion of renewable generation.

Our most recent engagement with the Chair, following their annual result, focused on the execution of their climate strategy and how they view the energy transition playing out in New Zealand. In particular, it was noted that small pumped hydro projects may be more viable than Lake Onslow and it is still early days on hydrogen, with no infrastructure in place and a long build time.

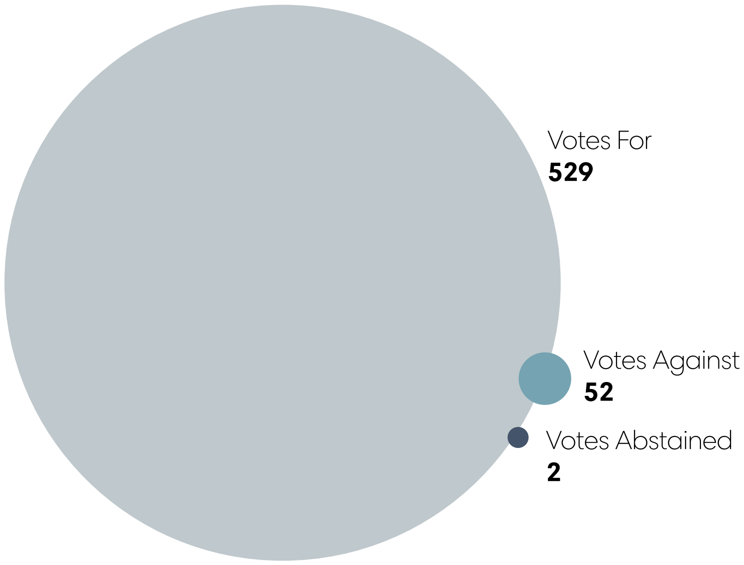
**Outcome:** We have seen encouraging progress from the company over this time such as their development of a new geothermal power station and an announcement during the year that they would be closing one of their thermal generation assets.

Piha, Auckland

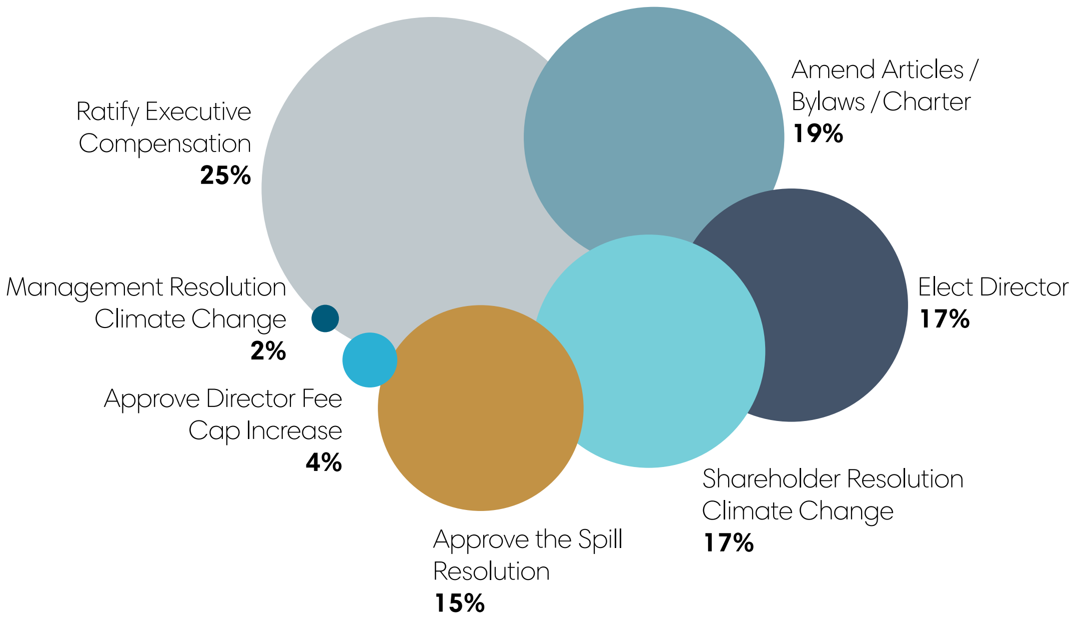
# VOTING OUTCOMES

A summary of proxy voting activity for the 12 months to 31st December 2022 is provided through the charts below.

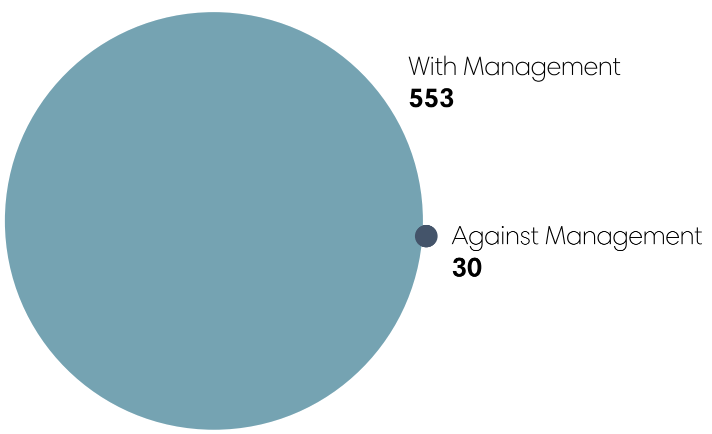
**Total proposals 2022**



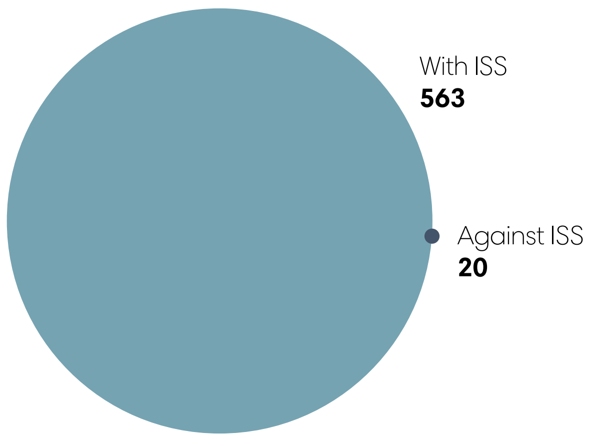

**Breakdown of votes against**



**Management Reccomendations**




**ISS Reccomendations**




The most prevalent voting resolutions that were contentious over the year related to executive remuneration followed by amending governance documents like constitutions or board committee charters. The election of directors continued to be controversial in some circumstances and there were a growing number of shareholder resolutions related to climate change, particularly in Australia.

On executive remuneration, an example where we voted against management recommendations was for an Australian healthcare company regarding a resolution on issuing options to a non-executive director. It is our view that performance-based remuneration for non-executive directors is inconsistent with best governance practice and therefore voted accordingly. We expressed our concerns to the company and it was acknowledged that this practice would be stopped for all new appointees going forward. The results from the AGM showed that the resolution still carried with 60% shareholder support.

Regarding resolutions to amend governance documents, these were mostly shareholder resolutions in Australia to enable the filing of additional resolutions such as those relating to climate change. These were largely opposed due to the fact there is already a legal system in place to oversee shareholder proposals (the Corporations Act) and other mechanisms by which shareholders can engage companies such as submitting questions at the AGMs.

Climate change resolutions were primarily proposed by shareholders but were often not put to the meeting given they were conditional on the resolutions to amend constitutions which did not carry. Regardless, our voting intentions tended to be against these proposals given requests for climate action or information where, in many cases, companies were already making solid progress. Examples included the major Australian banks who have joined the Net Zero Banking Alliance, set near-term targets in their lending portfolios (sector-specific) and committed to the phasing out of financing fossil fuel production.

# IMPACT INVESTING

***Investments made with the intention to generate positive, measurable social and/or environmental impact alongside a financial return - Global Impact Investment Network (GIIN).***

The Sustainable Impact Fund (the Fund) was established in 2021 to provide investors with exposure to a diversified range of global and domestic investments which make a positive environmental or social impact while aiming to exceed the traditional asset class return benchmark. All investments are assessed against the United Nations Sustainable Development Goals (SDGs). The Fund defines an investment as impactful if contributing to at least one SDG, and specifically references the more tangible sub-goals.

### The Fund's impact

Impact measurement provides a proof-point to combat greenwashing. The following provides an overview of the Fund's impact. More detailed information can be found in the **Impact Report.**

### Temperature score

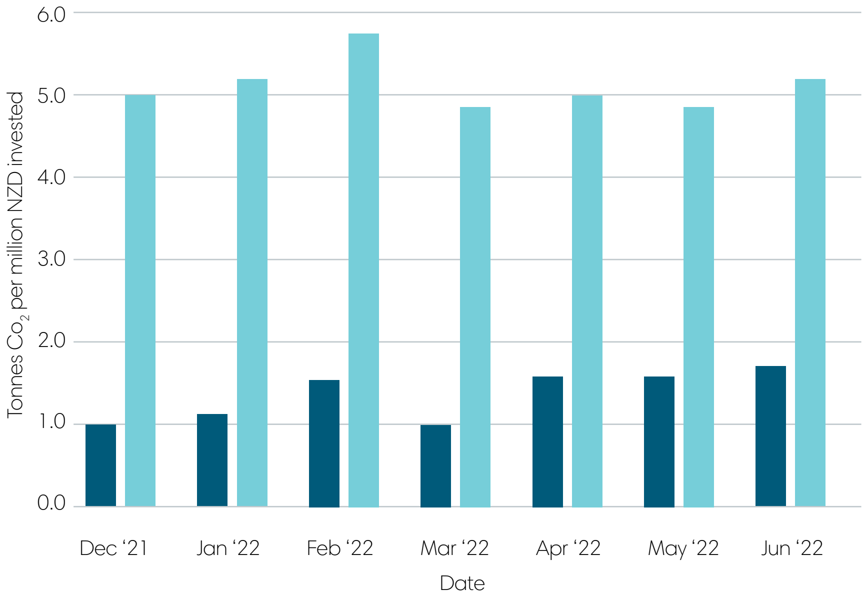
For the month ending 31 December 2022, the temperature score of the Fund was 1.5°C, whilst the Fund's benchmark had a score of 2.8°C.

## Carbon Footprint

As of 30 June 2022, Scope 1 and 2 emissions* data for:

- **100%** of listed equities exposure through external managers is resported through ISS
- **98.8%** of listed equities exposure held directly is reported through ISS which represents 11 of the 12 hodlings in the portfolio.

* As per the Greenhouse Gas Protocol for measuring carbon emissions, Scope 1 and 2 are direct emissions (scope 2 being purchased electricity) whereas Scope 3 emissions come indirectly through an entity's value chain, including use by customers or emissions in purchased inputs. For now, Scope 3 measurement is very limited. For more information visit **ghgprotocol.org**.

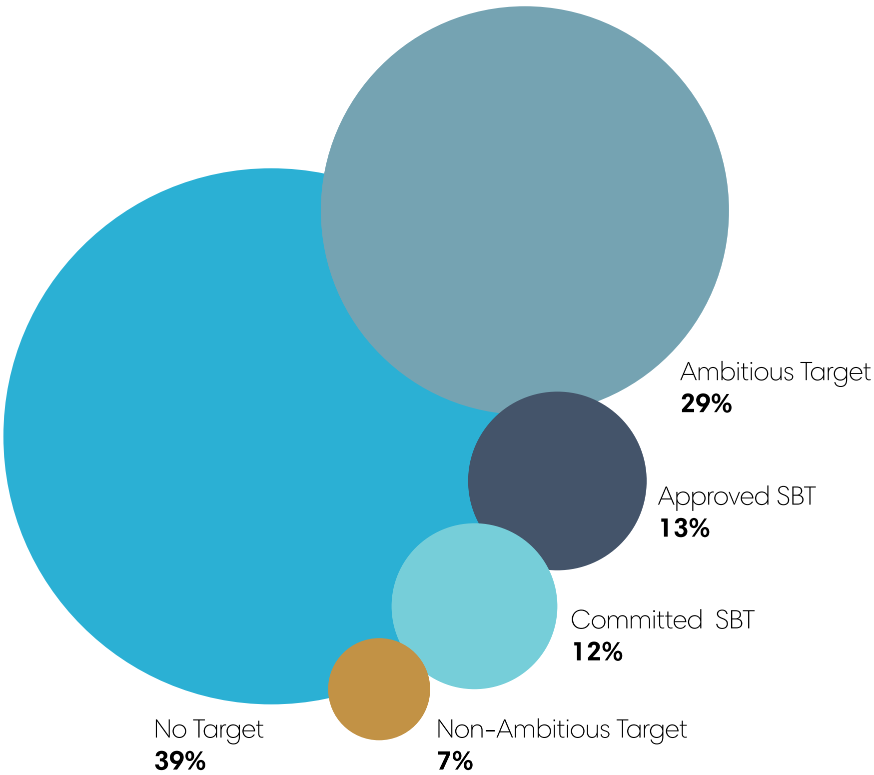



Benchmark: (25% S&P/NZX 50 Portfolio Gross Index, 17% S&P/ASX 200 Index, 58% MSCI All Country World Index)

## Science Based Targets Initiative (SBTi)

Currently 67 companies of the 109 listed equities in our portfolio have committed to a published climate goal, with 27 of these having either committed to the SBTi or having targets approved by SBTi.

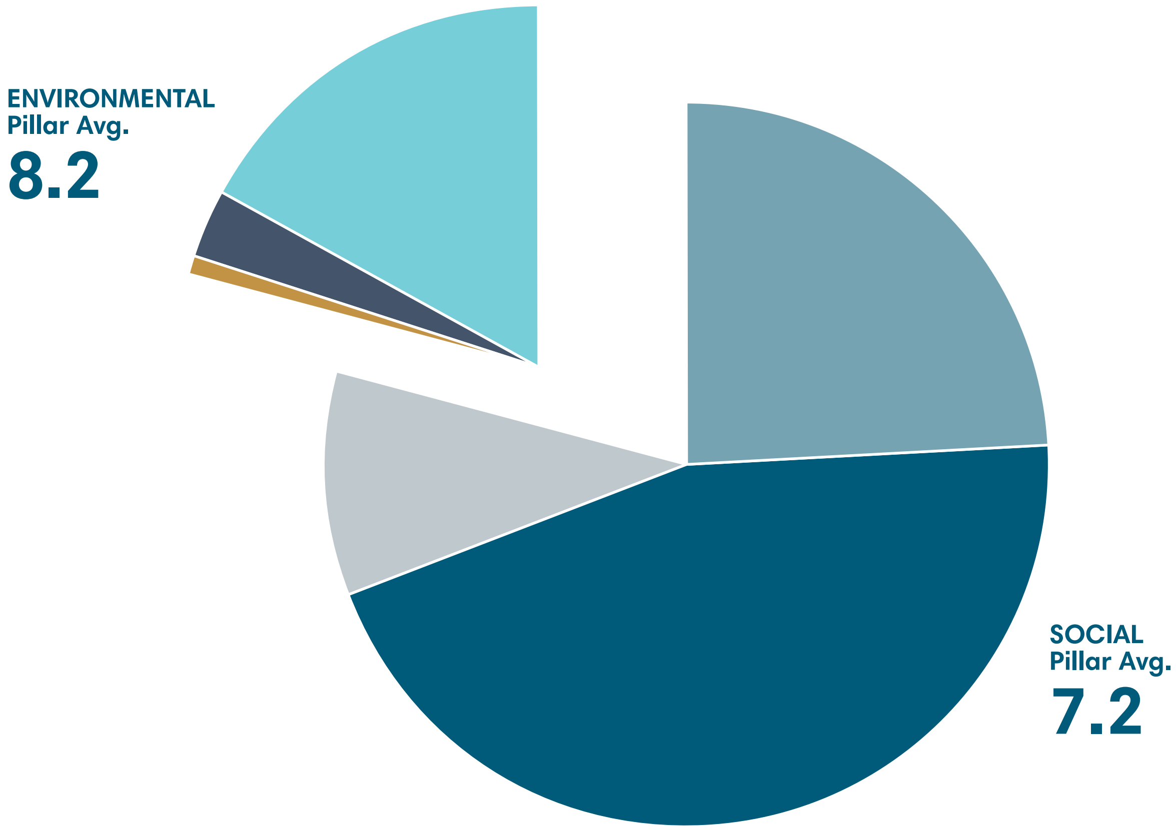
A further 32 have not signed up to SBTi, but have targets assessed as being 'ambitious' by ISS. Eight of these 67 have set targets that are assessed to be non-ambitious. This assessment helps drive our engagement with companies.



## Overall impact scoring

To simplify communication, we provide summary measurements of impact alignment. Using ISS's alignment score, we take the core SDG for each company and present weighted averages. This is supplemented with summary statistics such as carbon footprint to give investors a more rounded feel for the Fund and demonstrate how it fits with their values.

Results as of 30 June 2022 are seen below. At the portfolio level our aggregate score is 7.4/10, while our benchmark score is 7.0/10. Sub-Pillar scores are seen below as weighted averages based on the weight in the Fund or the Fund's benchmark.




| ENVIRONMENTAL SUB-PILLAR | % WGT | AVG. SCORE | BM SCORE |
|---|---|---|---|
| Resource Sustainability | 1% | 7.2 | 7.3 |
| Natural Capital | 3% | 7.7 | 7.0 |
| Climate Change Mitigation | 17% | 8.2 | 7.7 |

| SOCIAL SUB-PILLAR | % WGT | AVG. SCORE | BM SCORE |
|---|---|---|---|
| Wellness | 24% | 8.2 | 8.5 |
| Thriving Communities & Infrastructure | 45% | 6.8 | 6.5 |
| Social Inclusion | 10% | 6.9 | 6.8 |

Benchmark: (25% S&P/NZX 50 Portfolio Gross Index, 17% S&P/ASX 200 Index, 58% MSCI All Country World Index).

Note - due to differences in the way that ISS, Harbour and our external partners classify the primary contribution of a company's impact, the ISS mapping to each SDG may differ to our qualitative assessments.


Fjordland Park, Otago

# CLIMATE AND ESG REPORTING

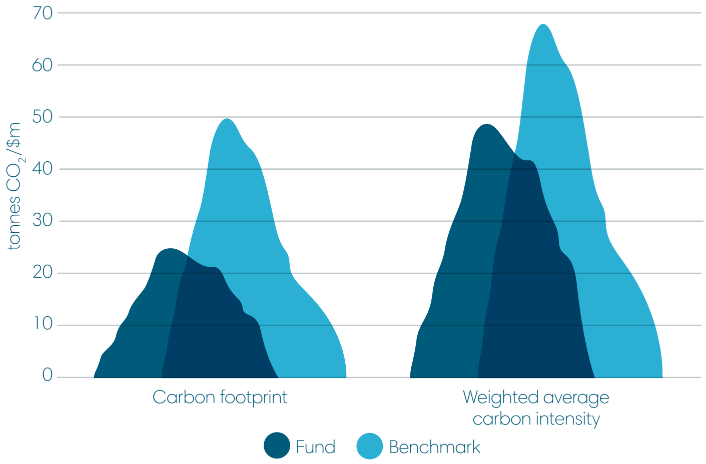
All of our equity funds include climate change metrics in their reports and fact sheets. These metrics include the portfolio's total emissions, carbon footprint and weighted average carbon intensity. They are provided against each fund's respective benchmark to show a comparison of absolute emissions exposure as well as normalising for capital invested and the revenue of the underlying companies.

The metrics are consistent with definitions under the Task Force on Climate Related Financial Disclosures (TCFD) guidance, and go some way towards providing more transparency to our investors about the climate change impacts of the funds they are investing in.

Direct clients also receive further ESG measures for equity portfolios, such as the proportion of gender diverse workforces, modern slavery reporting and Boards comprising majority independent directors.

# Harbour Australasian Equity Fund

## Carbon statistics

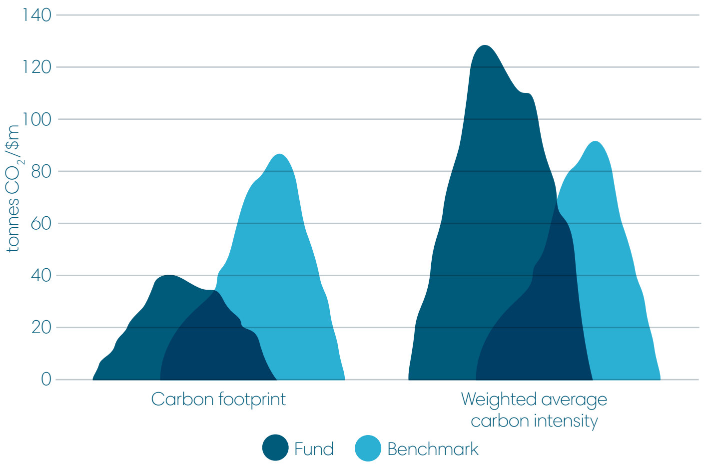



## ESG metrics summary

| | FUND | BENCH-MARK |
|---|---|---|
| **Gender diversity (workforce >40% female representation)** | 44% | 49% |
| **Modern Slavery Statement** | 60% | 70% |
| **TCFD Reporting** | 13% | 34% |
| **Majority Independent Board** | 69% | 90% |
| **Science Based Target** | 23% | 41% |

# Harbour Australasian Equity Income Fund

## Carbon statistics

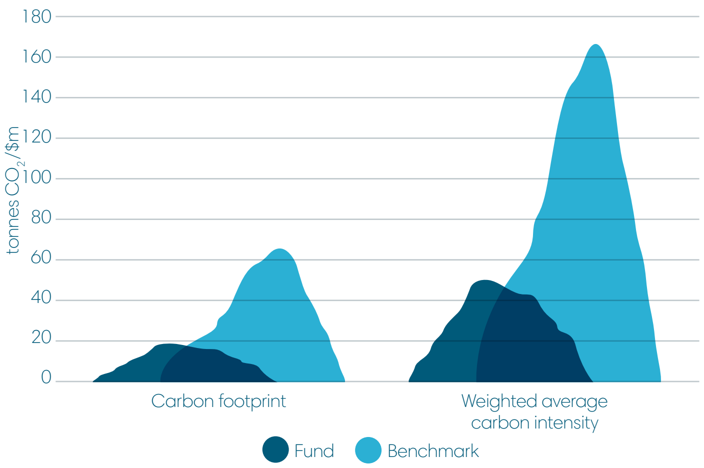



## ESG metrics summary

| | FUND | BENCH-MARK |
|---|---|---|
| **Gender diversity (workforce >40% female representation)** | 43% | 27% |
| **Modern Slavery Statement** | 45% | 37% |
| **TCFD Reporting** | 19% | 17% |
| **Majority Independent Board** | 63% | 49% |
| **Science Based Target** | 17% | 15% |

# Harbour Australasian Equity Focus Fund

## Carbon statistics

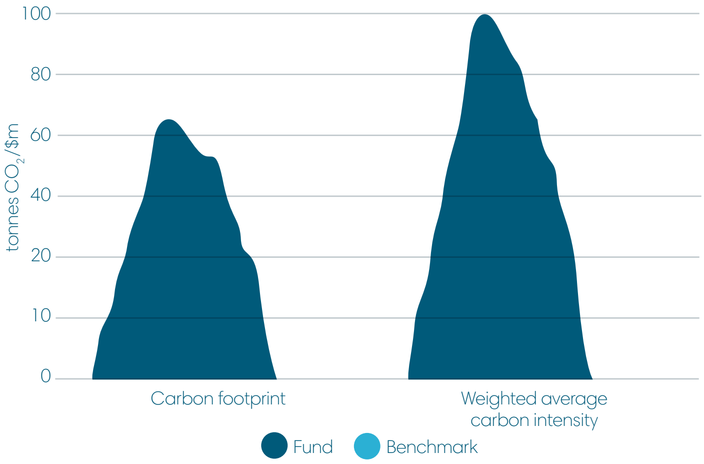



## ESG metrics summary

| | FUND |
|---|---|
| **Gender diversity (workforce >40% female representation)** | 40% |
| **Modern Slavery Statement** | 48% |
| **TCFD Reporting** | 7% |
| **Majority Independent Board** | 60% |
| **Science Based Target** | 4% |

# Harbour NZ Index Shares Fund

## Carbon statistics

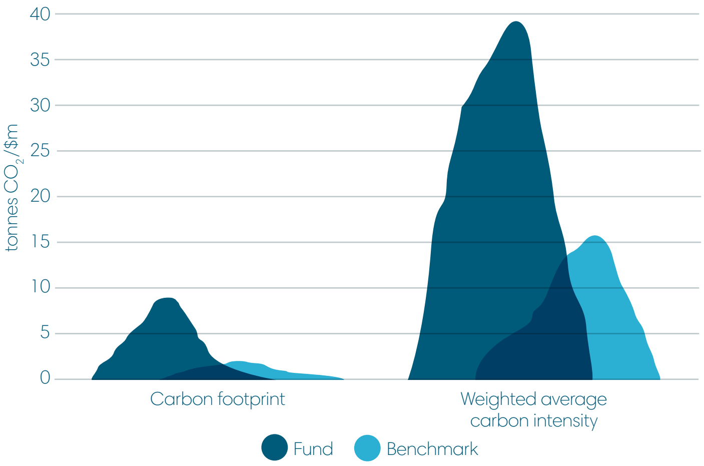



## ESG metrics summary

| | FUND |
|---|---|
| Gender diversity (workforce >40% female representation) | 51% |
| Modern Slavery Statement | 63% |
| TCFD Reporting | 32% |
| Majority Independent Board | 90% |
| Science Based Target | 30% |

# Harbour Real Estate Investment Fund

## Carbon statistics

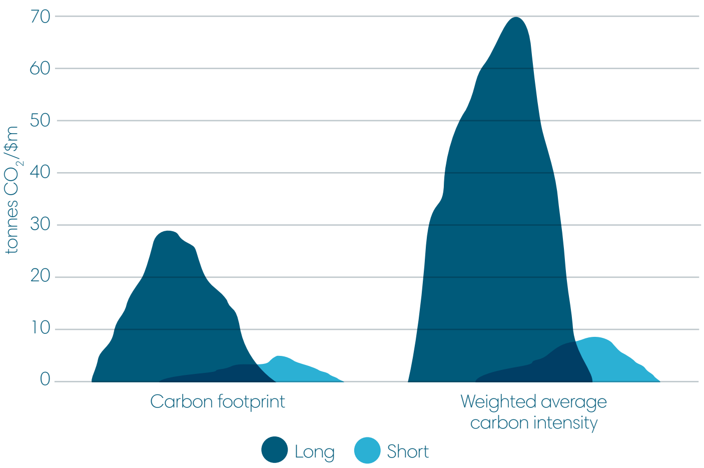



## ESG metrics summary

| | FUND |
|---|---|
| Gender diversity (workforce >40% female representation) | 44% |
| Modern Slavery Statement | 5% |
| TCFD Reporting | 13% |
| Majority Independent Board | 73% |
| Science Based Target | 1% |

# Harbour Long Short Fund

## Carbon statistics

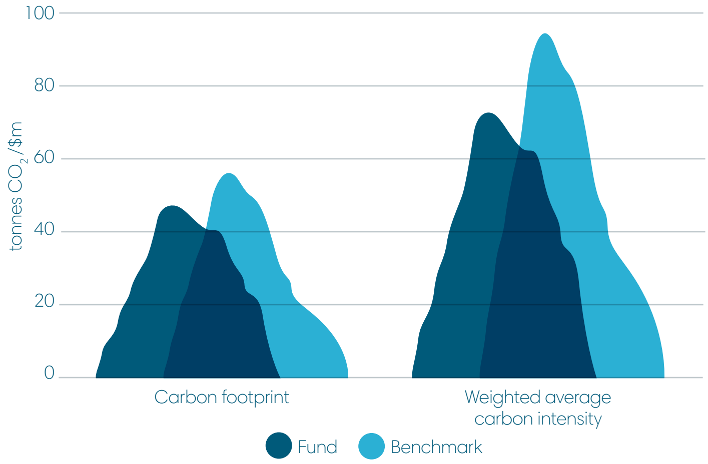



## ESG metrics summary

| | FUND |
|---|---|
| Gender diversity (workforce >40% female representation) | 9% |
| Modern Slavery Statement | 12% |
| TCFD Reporting | -6% |
| Majority Independent Board | 17% |
| Science Based Target | 3% |

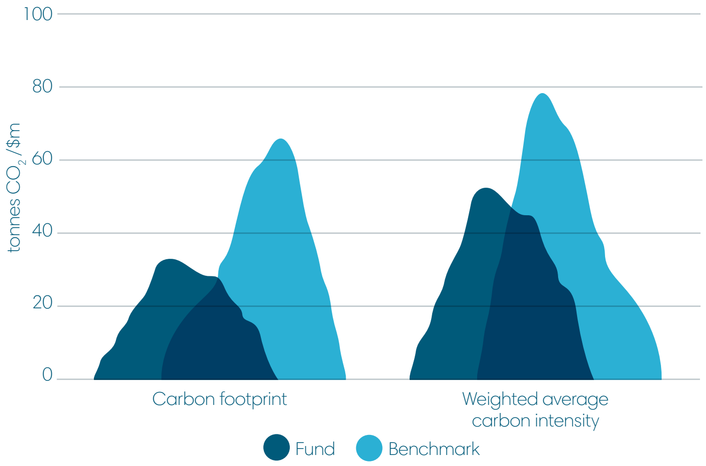
# Harbour Active Growth Fund

## Carbon statistics




# Harbour Sustainable NZ Shares Fund

## Carbon statistics

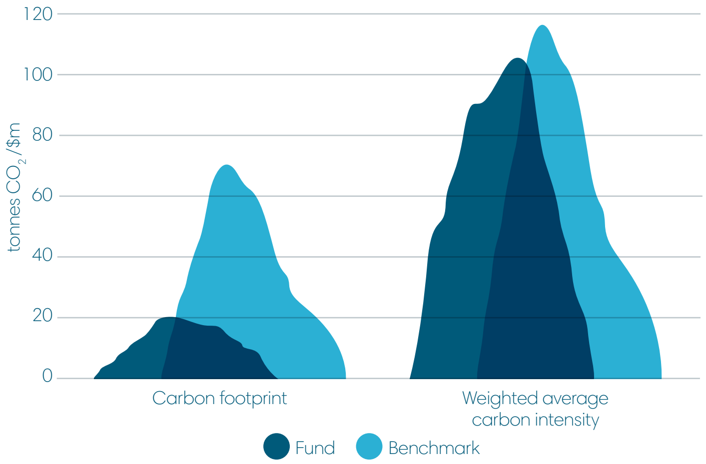



## ESG metrics summary

| | FUND |
|---|---|
| **Gender diversity (workforce >40% female representation)** | 51% |
| **Modern Slavery Statement** | 66% |
| **TCFD Reporting** | 31% |
| **Majority Independent Board** | 90% |
| **Science Based Target** | 29% |

# Harbour Sustainable Impact Fund

## Carbon statistics

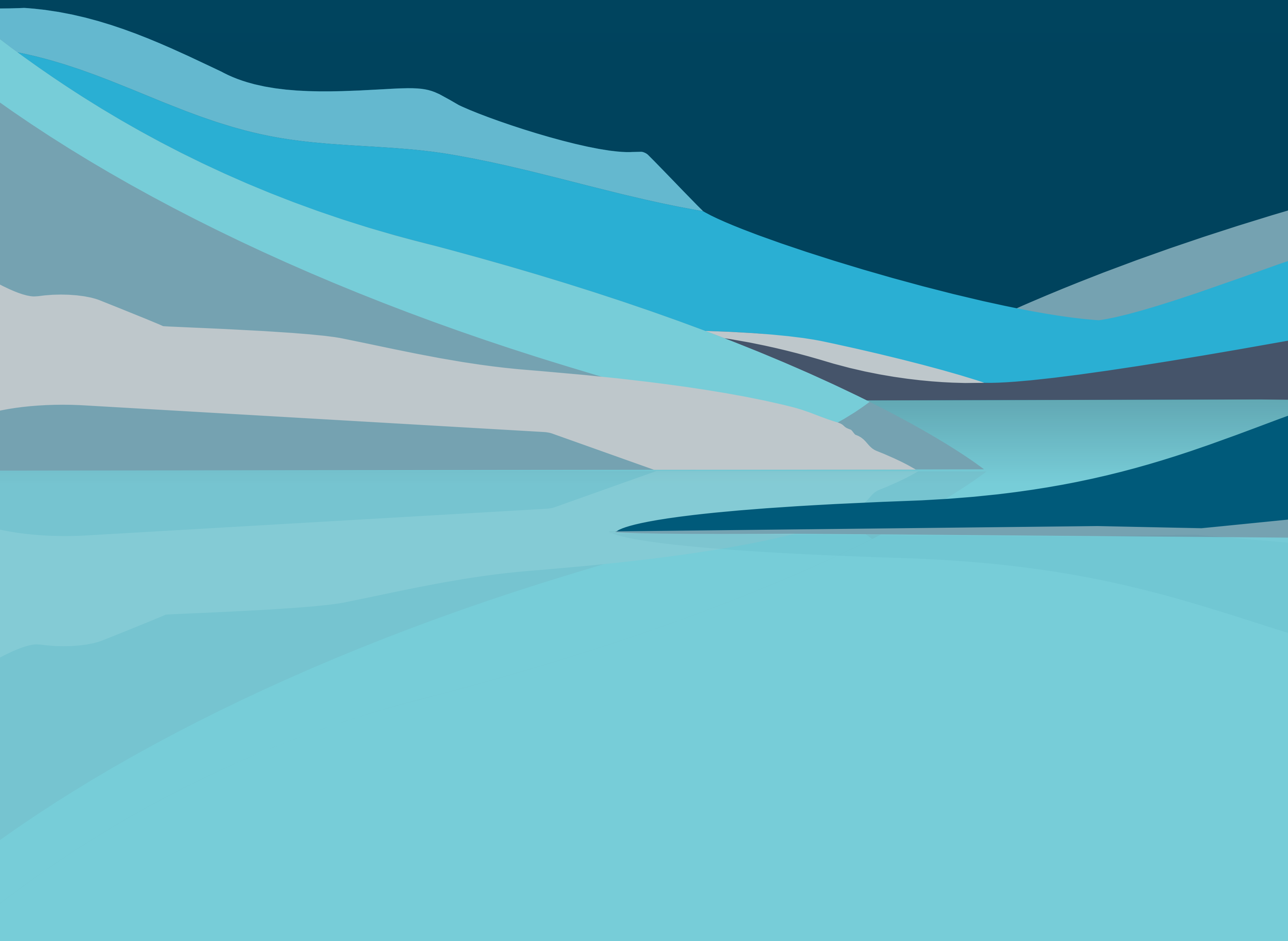



*Data as at 31 December 2022

# PART TWO

## Sustainability as a company

We believe in holding ourselves to the same standards to which we hold others as shareholders and investors. 'Walking the talk' is our corporate responsibility, and we are committed to creating positive environmental and social impact.




# HARBOUR FOOTPRINT COMMITTEE

The Footprint Committee is a voluntary group of representatives from across the Harbour team who aim to improve Harbour's environmental and social footprint. They meet once a month and drive a variety of initiatives to help Harbour make a positive community impact. While Harbour's Management and Board set the organisation's sustainability focus, the Footprint Committee brings the enthusiasm to enact initiatives and embody sustainability within the organisation's culture.

In 2022 the Footprint Committee drafted policies and supporting initiatives covering diversity, equity and inclusion and to mitigate the risk of worker exploitation and modern slavery. This included a supplier code of conduct, which outlined our expectations that suppliers must act responsibly, fairly, ethically, and safely. These policies are due to be ratified in 2023.

The group also worked to select more sustainable catering contractors and chose WELLfed as the recipient of Harbour's 2022 Christmas giving drive. WELLfed teaches adults in the Porirua region how to cook healthy and inexpensive meals with an emphasis on seasonal vegetables. Harbour donated cooking equipment to help participants put their learnings into action.

# CLIMATE CHANGE

## Carbon Reduction Progress

We have continued to drive a significant reduction in our carbon profile relative to our 2019 baseline.

Travel to visit clients and undertaking due diligence on investee companies is a fundamental part of our business, and the most significant contributor to Harbour's carbon footprint. The inability to travel during the pandemic led to a meaningful reduction in domestic travel from 2020 and 2021, while border closures continued to restrict international travel in 2022. Additionally, we have re-evaluated the way staff travel, encouraging staff to combine trips or lean on technology to minimise flights where feasible.

Elsewhere in the business, staff are focussed on driving incremental reductions, selecting electric rental vehicles and taxis over internal combustion engines where feasible. We have also installed motion sensors to control office lighting. However, as discussed below, driving absolute reductions is a challenge as the business continues to grow.

## Carbon Footprint

| Emissions ($tCO_2e$) | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| Domestic Air Travel | 64.7 | 43.8 | 37 | 70 |
| Short Haul Air Travel | 33.5 | 3.8 | 0 | 0.3 |
| Long Haul Air Travel | 59.6 | 0 | 0 | 15.4 |
| Taxi Travel | 3.9 | 2.2 | 2.2 | 2.0 |
| Accommodation | 3 | 1 | 0.9 | 1.5 |
| Electricity Consumption | 2.2 | 2.2 | 2.4 | 3.2 |
| Electricity Transmission losses | - | 0.2 | 0.2 | 0.3 |
| Cars (rentals) | 0.3 | 0.3 | 0.8 | 0.1 |
| Waste to landfill | 0.1 | <0.1 | 0.2 | 0.3 |
| Paper use (100% recycled) | <0.1 | <0.1 | <0.1 | <0.1 |
| **Total** | **167** | **53** | **43** | **93** |
| Scope 1 | 0 | 0 | 0 | 0 |
| Scope 2 | 2.3 | 2.4 | 2.6 | 3.5 |
| Scope 3 | 165 | 50.9 | 40.6 | 89.3 |
| Scope 3 Additional | - | - | - | 88.4 |

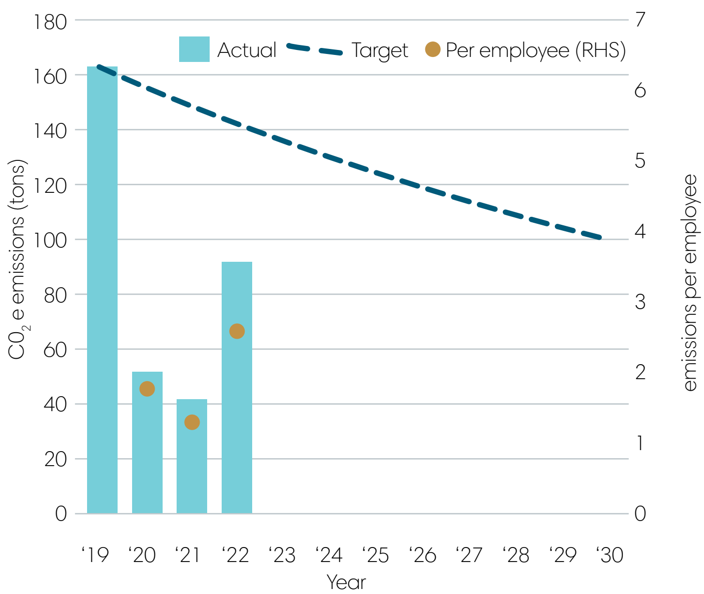
In 2022 we have increased measurement of our Scope 3 emissions beyond directly controllable operational elements to include further inputs to our supply chain. This is reported as 'Scope 3 Additional' below and is predominantly attributable to marketing and our spend on insurance as well as the commuting and working from home footprint of our staff. This measurement is consistent with ISO 14064-1 and the XRB's requirements to measure an entities' entire value chain as guided by Toitū and experienced by other Toitū-certified entities. Expanding the breadth of our Scope 3 sources will enable us to engage with a broader range of suppliers to help drive efficiencies throughout our supply chain. Rather than resetting our target, we continue to measure progress excluding these additional sources but will report on engagement with suppliers.


## Additional Scope 3 Emissions

| Emissions ($tCO_2e$) | 2022 |
|---|---|
| Archiving | 3.61 |
| Auditing | 7.77 |
| Finance | 12.36 |
| Groceries | 1.70 |
| HR and People & Culture | 5.02 |
| Insurance Services | 22.37 |
| IT Support (outsourced) | 2.95 |
| Legal Services | 2.72 |
| Marketing & Advertising | 35.53 |
| Office Cleaning | 12.58 |
| Office Support | 3.27 |
| Travel Agency | 1.28 |

We have set a challenging absolute emissions reduction consistent with a '1.5-degree scenario'. This equates to reducing emissions by approximately 5.5% every year until 2030 or a total reduction of 45.7% by 2030. With the growth of Harbour's workforce in recent years, this target, expressed as a year-on-year absolute reduction, is an incredibly difficult one. To demonstrate how much progress, we've made we also provide emissions per employee on the right-hand axis.

### Progress vs Emissions Reduction Target




## Carbon Zero certification

Harbour completed Toitū carbonzero certification for the period 2019-2021 as confirmed by annual audits. A 2022 audit will soon take place, to ensure accurate measurement of emissions and evidence of reduction plans and initiatives.

## Gyapa cook stoves, Ghana

Nearly 3 billion people in the developing world cook food and heat their homes with traditional cook stoves or open fires. The Global Burden of Disease Study 2010 estimates that 4 million premature deaths occur every year due to smoke exposure from these methods. In fact, this is the fifth worst risk factor for disease in developing countries and women and children are the most affected. ClimateCare and Relief International have partnered to introduce the Gyapa, an insulated and efficient cook stove, to families in Ghana. The Gyapa stove cooks food more quickly and requires 50-60% less fuel, reducing carbon emissions.

Co-benefits:

- Improves health by reducing exposure to toxic fumes as it is less smoky (typically for mothers and children)
- Reduces household energy costs
- Improves the local economy by supporting businesses and providing employment opportunities (the stoves are locally manufactured)
- Protects Ghana's dwindling forests (Ghana has one of the highest deforestation rates in Africa).

Carbon offsetting is the process of cancelling out the $CO_2$ emission produced in one place with the act of absorbing carbon in another place, while avoidance projects create alternative pathways, so emissions are not produced in the first place (eg renewable energy projects or energy-efficient equipment like cookstoves). The Gyapa cook stoves project is an avoidance project consistent with ICROA (International Carbon Reduction & Offset Alliance) Code of Best Practice 2022.

# CHARITY AND COMMUNITY ENGAGEMENT

### Charity partnership

Since 2019, we have continued our support for Roots of Empathy, a charity which is aligned closely with our values and has a strong need for funding.

Roots of Empathy is an international, evidence-based classroom programme which reduces levels of aggression among schoolchildren by raising social/emotional competence and increasing empathy.

At the heart of the programme are a baby and parent who visit the class throughout the school year. A Roots of Empathy Instructor coaches children to observe the baby's development and feelings. In this experiential learning, the baby is the "Teacher" that the instructor uses to help children identify and reflect on their own feelings and the feelings of others.

This charity partnership has not precluded one-off donations or fundraising efforts too, for causes such as WELLFed in 2021 and 2022, Women's Refuge in 2020 and the Christchurch Call in 2019.

### Volunteering policy

We believe that our team is an incredible resource for our community and encourages staff to engage with and contribute to the community in positive and constructive ways. In support of this, Harbour has a policy giving each staff member two days of volunteering time per year.

Harbour (led by the Footprint Committee) has formed a long-term alliance with charitable organisations. Lasting partnerships can bring greater benefit to both parties. Contributing to the same cause provides opportunity for groupwork and team building as well as a demonstration of Harbour's collective impact.

One day of the total allocation of volunteer leave can be allocated to organisations outside of the Harbour alliance. The combination of Harbour- and individual-led activities provides a mix of group activities and collective impact as well as assisting individuals contribute to causes close to their hearts.


In 2022 the company and staff raised over $14,000 for Roots of Empathy NZ

Graeme Dingle Foundation Awards

**The two Harbour alliances for 2022 were:**

The **Graeme Dingle Foundation's Career Navigator programme** - this programme works with high school kids to broaden their career horizons and provide pathways to employment. Career Navigator is a school- based ready-for-work programme that supports schools to help students:

- Understand the importance of their schoolwork to their future lives
- Have confidence in their career choices
- Develop work readiness skills
- Develop positive attitudes toward work and job seeking.

Career Navigator's goal is to provide young people with the work-ready skills and confidence they need to transition successfully from school into higher education and/or employment.

In 2022, several staff members mentored students throughout the year, while another group volunteered by conducting mock job interviews for Porirua College students. Harbour also sponsored the Graham Dingle Foundation's awards ceremony in Wellington.

GRAEME DINGLE FOUNDATION
Empowering kids to overcome life's obstacles
Whakamanawatia ngā tamariki kia eke panuku

**Everybody Eats** - a project that is on a mission to reduce food waste, food poverty and social isolation in New Zealand. Their pay-as-you-feel dining for everyone serves restaurant quality, three-course meals, prepared by volunteer chefs, from perfectly good food that would otherwise go to waste. Some of the Harbour team spent a day helping with food prep and learning about the amazing work this organisation does.

Everybody Eats


Harbour staff Christmas party 2022

## Diversity, equity and inclusion

Harbour strongly advocates for diversity, equity and inclusion (DEI) within our business, the companies that we invest in, and our industry. Inclusivity is a core part of Harbour's team culture and is increasingly important as our team grows in size.

At Harbour, we're committed to attracting, developing, and retaining a diverse team of talented people and creating an inclusive culture that empowers everyone to bring their authentic selves to work every day and reach their full potential.

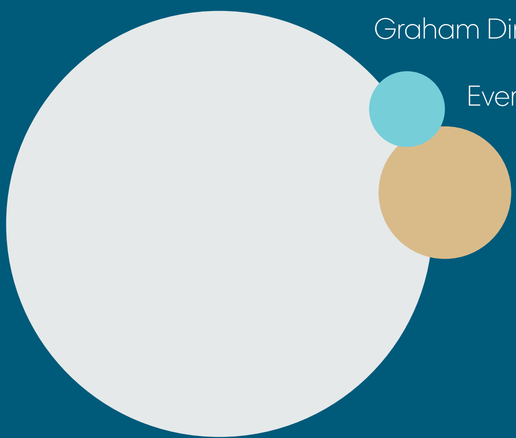
We believe that embracing and celebrating the diversity within our organisation is key to unlocking new ideas, driving engagement, and delivering better outcomes for our clients.

While we have made significant strides, we still have a way to go to meet the 40:40:20 management ratio we advocate for in companies we invest in (40% male, 40% female, 20% of any gender) at a management level, or within our investment team. We are pleased that, overall, our team does fit this ratio.

A core issue we have found in hiring qualified investment staff is a diversity challenge within the existing talent pool. There is still a significant lack of diversity in the groups of people studying finance at a tertiary level.

We see this shortage of applicants as a systemic failing and we have directed our volunteering efforts, as described earlier in this report, towards addressing this imbalance through our alliance with the Graeme Dingle Foundation's Career Navigator programme. Through our internship programme we have provided exposure to the industry to a diverse group of young people over the past five years. In addition, one of our executive team has been very involved in a number of industry initiatives aimed at improving financial representation and wellbeing for women.

### In 2022 Harbour staff volunteered a total of 167.5 hours:



Graham Dingle: **112.5 hours**

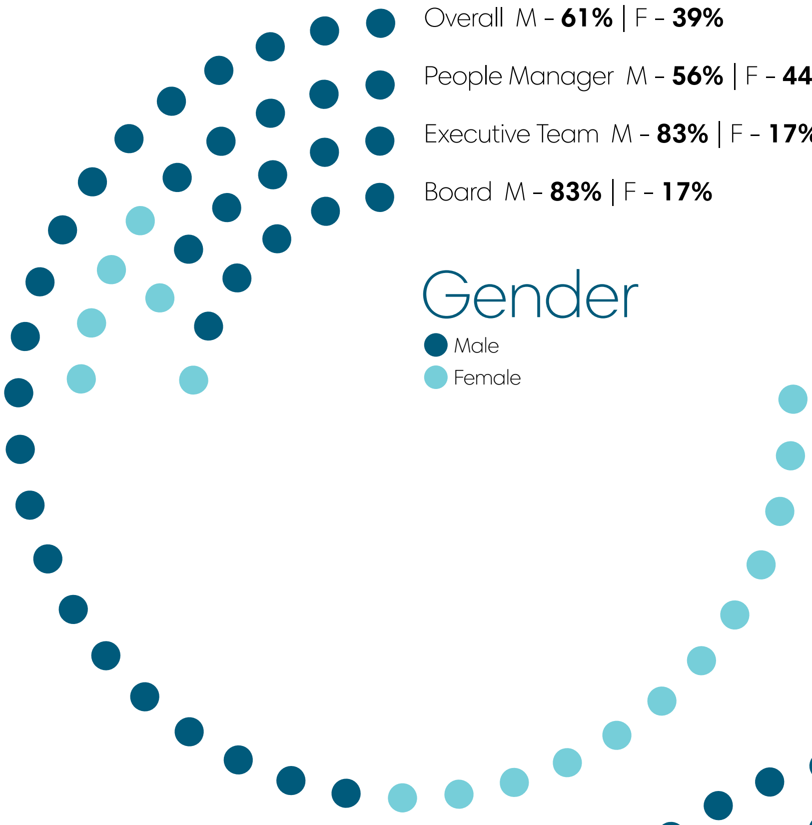
Everybody Eats: **20 hours**

Other staff initiatives: **35 hours**

TOTAL: **167.5 hours**

In addition to this, many staff give their time outside of office hours. The Footprint Committee has set a target to increase volunteer days.

# DEMOGRAPHICS



Overall M - **61%** | F - **39%**

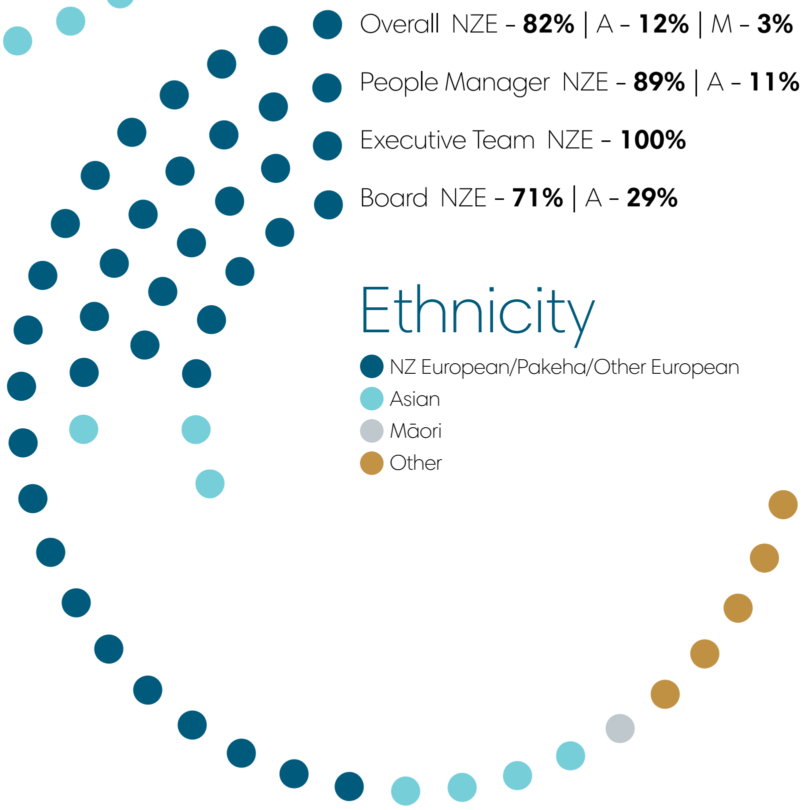
People Manager M - **56%** | F - **44%**

Executive Team M - **83%** | F - **17%**

Board M - **83%** | F - **17%**

## Gender

- Male
- Female



Overall NZE - **82%** | A - **12%** | M - **3%** | O - **15%**

People Manager NZE - **89%** | A - **11%**

Executive Team NZE - **100%**

Board NZE - **71%** | A - **29%**

## Ethnicity

- NZ European/Pakeha/Other European
- Asian
- Māori
- Other

Note: These statistics are the result of a team survey undertaken in early 2023.
Totals may add to more than 100% as people could select more than one option.

Anawhata Beach, Auckland

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