Harbour
ASSET MANAGEMENT

SUSTAINABILITY REPORT
2023

Published July 2024

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MESSAGE FROM THE MANAGING DIRECTOR

Welcome to Harbour's 2023 Sustainability Report. This is Harbour's third Sustainability Report sharing our Environmental, Social and Governance (ESG) investment process and approach to sustainability as a company. While stewardship has always been at the core of Harbour's responsible investing approach and we've voluntarily reported on stewardship activity and outcomes for many years, this report is the first to include a Stewardship Report. I hope you find our insights useful as we bring to life the road map we envisaged as a founding signatory to the Aotearoa New Zealand Stewardship Code in 2022.

In 2023 we continued to strive to get the best outcomes for our clients by engaging on an ongoing basis with many companies to influence ongoing improvements in corporate behaviour and ESG practices over the long term. The reason we value engagement is a deep belief that a more holistic view of the sustainability performance of our investments may lead to better client outcomes.

This process is becoming easier as a result of new regulation and consumer desire for ESG investments, and we have seen companies respond accordingly. Despite the polarising status of ESG investing in the US, globally ESG investments are continuing to grow, with global ESG funds adding US$63 billion (source Morningstar) in spite of worsening geopolitical tensions, recession in many parts of the world and challenging economic conditions during 2023. Closer to home, we saw funds under responsible investment management in New Zealand rise to a new record NZ$183 billion (source RIAA) in 2023, while challenging environmental events at the beginning of 2023 emphasised climate risks to both businesses and investors.

In 2023 we continued to strive to get the best outcomes for our clients by engaging on an ongoing basis with many companies to influence ongoing improvements in corporate behaviour and ESG practices over the long term.

MANAAKI WHENUA, MANAAKI TANGATA, HAERE WHAKAMUA.

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

2023 was also the first year Harbour began reporting carbon intensity for our fixed interest funds, alongside the carbon intensity reporting we have provided for equity portfolios for several years.

We continued our support for Roots for Empathy in 2023, and Harbour staff spent 125 hours volunteering over the course of the year with the Graham Dingle Foundation and other charities.

At Harbour we're focused on delivering the best outcomes for our clients and community, and it's encouraging to continue to be recognised externally for our responsible investing approach, as a finalist for Best Ethical Retail Investment Provider at the 2023 Mindful Money Awards.

I hope this report gives you greater insight into the way Harbour operates both with its clients and companies, and will continue on this journey with us towards a sustainable future.

Ngā mihi nui
Andrew Bascand, Managing Director

2023 HIGHLIGHTS

Finalist for Best Ethical Retail Investment Provider at the 2023 Mindful Money Awards.

Raised $14,000 for Roots of Empathy charity, and staff volunteered 125 hours to a number of community programmes.

Became the only manager we are aware of to report carbon intensity for fixed interest funds.

Lake Tekapo, New Zealand

OUR APPROACH TO RESPONSIBLE INVESTING

Environmental, Social and Governance (ESG) considerations play a central role in Harbour's 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 in 2009. 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 analysts and 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 Corporate Behaviour Survey (CBS) consists of over 90 questions and is completed annually.

Our annual Corporate 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 internally managed Harbour funds (aside from the passive NZ Index Shares Fund), we screen for a base level of exclusions, for industries or sectors which we believe cause significant societal or environmental harm.

In 2023 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
- The manufacture of military weapons and equipment used for combat purposes
  (As defined by our external data provider ISS ESG which includes barrel weapons, explosives, missiles, bombs, combat vehicles and associated apparatus and gear).

Harbour utilises an external ESG provider (currently ISS ESG) to provide screening services to ensure 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.

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°C.

Rotorua Redwoods

HOW DOES HARBOUR 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 Toitū certified carbonzero business with clear targets for climate mitigation in line with the 1.5°C challenge. Our carbon credits are sourced via an international 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. Over the past year the company has made several announcements across steel, cement and lithium, involving key partnerships with industry leaders such as its first global licensing agreement with one of the world's largest cement manufacturers (Heidelberg Materials). This will help facilitate the building and usage of Calix's technology.

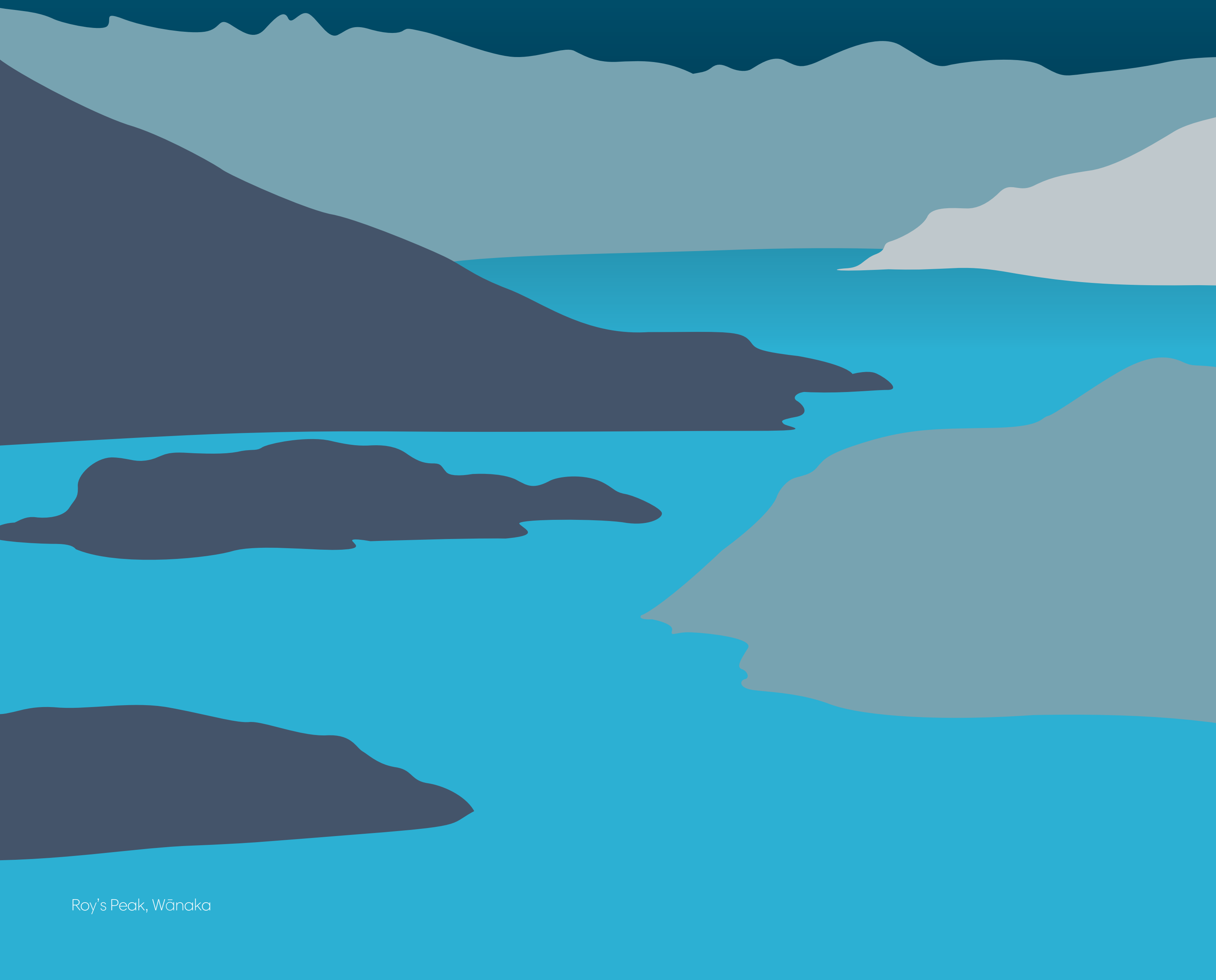
Harbour will provide further detail on how we address climate change across our investments in our inaugural Climate Related Disclosures report to be published later in 2024. This report will be aligned with the regulatory standards developed by the External Reporting Board (CS 1 – 3) and cover information from governance, strategy and risk management to metrics and targets with respect to climate change.

Hawke's Bay cleanup after Cyclone Gabrielle

Hawke's Bay cleanup after Cyclone Gabrielle

PART ONE

2023 Sustainable investing update



Roy's Peak, Wānaka

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

2017
ESG Policy published

2018
Became member of RIAA

2019
Internship, Intern undertook carbon research project

2020
Internship, Intern undertook EV research project

2020 – 2021
Internship, Intern undertook social ESG research project

2020
Full time ESG manager resource allocated

2020
DECEMBER
Harbour Australasian Equity Fund becomes RIAA certified

2021
APRIL
Sustainable NZ Shares Fund launched

2021
JUNE
Harbour Australasian Equity Fund endorsed as Mindful Fund

2021
JUNE
Harbour awarded the Best Ethical Investment Provider at the inaugural Mindful Money Awards

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

2021
NOVEMBER
Harbour Sustainable NZ Shares Fund and Harbour Australasian Equity Focus Fund become RIAA certified

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
NOVEMBER
Harbour awarded the Responsible Investment Manager of the Year at the ResearchIP Awards

2023
MAY
Responsible Investment Forum held

2023 AWARDS, CERTIFICATIONS & RECOGNITION

We are proud to have won a number of sector awards and finalist titles over time. Harbour's fundamental goal is to be most trusted by our clients, and awards and reviews from independent organisations such as Mindful Money help to validate this.

MINDFUL MONEY AWARDS

Finalist: Best Ethical Retail Investment Provider

Responsible Investment Association Australasia recognition and certification

Harbour was recognised as a Responsible Investment Leader again in 2023 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.

riaa Responsible Investment Association Australasia
Responsible Investment Leader **2023**

CERTIFIED RESPONSIBLE INVESTMENT ®
CERTIFIED BY RIAA

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 **www.responsibleinvestment.org/**.

Aotearoa New Zealand Stewardship Code – Founding Signatory

The inaugural Aotearoa NZ Stewardship Code was developed during 2022 as a key framework to guide investor behaviour on engagement and voting practices. Harbour 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.

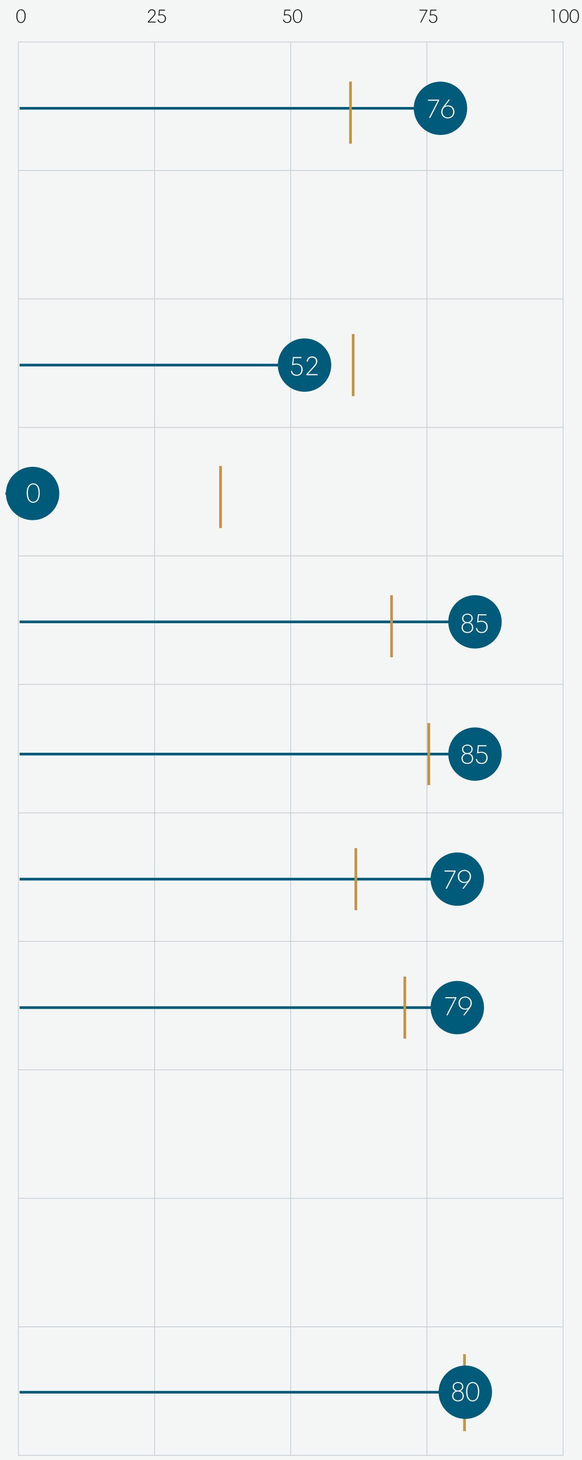
STEWARDSHIP CODE
AOTEAROA NEW ZEALAND

Principles of Responsible Investing (PRI) Assessment Report

A snapshot of the latest PRI review of our responsible investment practices is provided below.

PRI Median   Module Score

Module score	Star score	AUM coverage
Policy Governance and Strategy	★★★★☆	
Indirect - Listed equity - Active N/R		<10%
Indirect - Fixed income - Active	★★★☆☆	>=10 and <=50%
Direct - Listed equity - Passive equity	★☆☆☆☆	<10%
Direct - Listed equity - Active quantitative	★★★★☆	<10%
Direct - Listed equity - Active fundamental	★★★★☆	>=10 and <=50%
Direct - Fixed income - SSA	★★★★☆	>=10 and <=50%
Direct - Fixed income - Corporate	★★★★☆	>=10 and <=50%
Direct - Fixed income - Securitised N/R		<10%
Direct - Fixed income - Private debt N/R		<10%
Confidence building measures	★★★★☆	



2023 ESG INVESTING DEVELOPMENTS

Global

Sentiment towards ESG and the resulting capital flows over the year varied considerably based on geographic differences. For instance, the US posted annual net outflows from sustainable funds while European flows continued their grind higher, albeit at a slower rate. These differences are likely reflecting the increased polarisation of ESG in the US, with a political battle over its role in retirement saving regulation being a key example.

Despite this ESG backlash in the US, other regions around the world continued to see growth over 2023, with global ESG funds adding US$63 billion[1] against a challenging macroeconomic backdrop including escalating geopolitical tensions, recession fears and the end of an interest rate-tightening cycle.

Regarding specific ESG themes, climate change remained in focus with numerous commitments made at the COP28 conference such as the transition away from fossil fuels in energy systems and the tripling of global renewable capacity. These commitments are already being backed by capital, with worldwide investment in the energy transition reaching US$1.8 trillion[2] over the year, led by China but with strong growth in spending in the US, as the effects of the Inflation Reduction Act have started to kick in.

However, the energy transition does not come without its challenges as companies also faced higher costs for decarbonisation projects due to elevated interest rates. Other challenges included supply chain pressures arising from the geopolitical conflicts and the trend towards more onshoring and deglobalisation.

CLIMATE CHANGE REMAINED IN FOCUS WITH NUMEROUS COMMITMENTS MADE AT THE COP28 CONFERENCE

The conflicts in Ukraine and the Middle East have led to tragic, adverse humanitarian outcomes which highlight the importance of establishing ethical investing policies that avoid funding the controversial weapons that are used for harming people in these regions. Although some of these weapons may be used for defence purposes, in practice it can be difficult to identify the end users of weapon sales with most investors preferring to exclude investment in military weapons entirely (which is also reflected in Harbour's approach).

The boom in artificial intelligence (AI) was a major theme and key driver of US equity market returns over the year. Applications of this technology are wide-ranging but also come with risks from an ESG perspective such as labour displacement, data privacy and security. These risks will likely feature more prominently in the coming years as AI technology develops and is increasingly adopted.

Nature and the preservation of biodiversity continues to be an emerging theme with the development of a new disclosure framework known as the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations. Disclosure will be an important step towards a greater understanding of nature-related risks and dependencies but in some ways will be more challenging compared to addressing climate change given the lack of a universal metric to measure progress like greenhouse gas emissions.

Disclosure more generally in the sustainability space has been high on the agenda for many regulators and governments around the world, driven by the need to provide more transparency to investors on non-financial considerations and address concerns of greenwashing. This has been promoted by the increased adoption of reporting frameworks such as the International Sustainable Standards Board's climate and sustainability standards by various countries. More detail on this trend can be found in a recent Harbour article here.

Lake Wānaka

New Zealand

On the domestic front, the annual benchmark report from the Responsible Investment Association of Australasia (RIAA) showed that funds under responsible investment management rose to a new record NZ$183 billion[3] in the year. The growth rate was more modest compared to prior years, suggesting that the market is beginning to mature but it nonetheless still bucked the negative trend observed in the US.

Regarding consumer preferences, RIAA once again collaborated with Mindful Money to survey a wide range of kiwis on their attitudes towards ethical investing in New Zealand. In general, the results showed strong support for ethical investment with approximately three quarters of respondents expecting their investments to be managed ethically and responsibly[4]. The issues that consumers wanted to avoid remained largely unchanged over the five years the survey has been run, demonstrating the consistency in the ethical values held by New Zealanders.

In terms of specific ESG themes, similar to the global landscape, climate was front of mind for New Zealanders, especially given Cyclone Gabrielle and other severe weather early in the year that resulted in substantial damage and disruption caused to people and companies that were exposed in affected regions. These events emphasised the importance of having appropriate climate risk management processes in place as well as investing in climate adaptation to ensure resilience to similar events in future.

Additionally, transparency over climate risks and opportunities in corporate disclosures has been a growing priority as many listed companies in New Zealand prepare to report in line with the new mandatory climate standards for the first time in 2024.

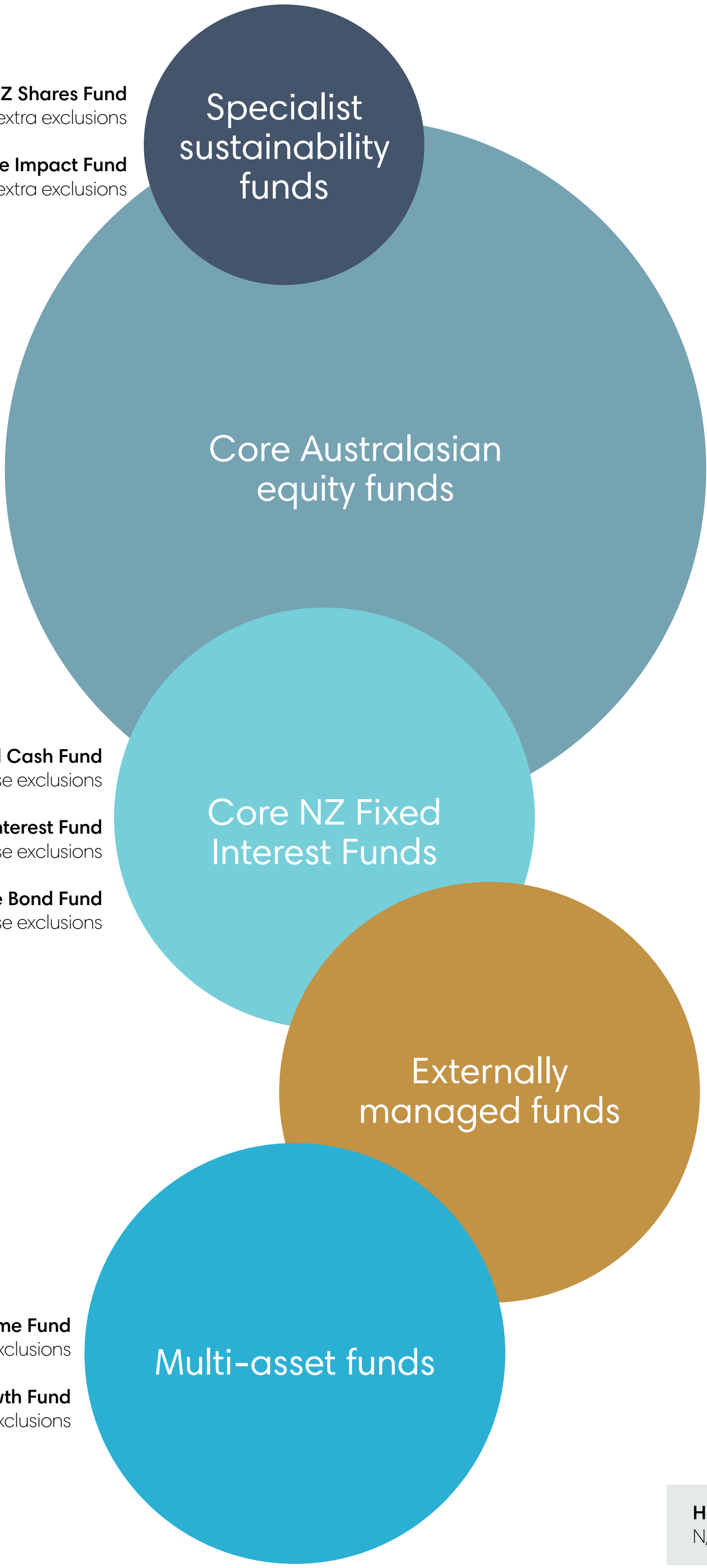
Aside from climate, other ESG issues such as modern slavery have been a key focus for investors recently. In New Zealand, this has been spurred on by plans to develop specific legislation to address this problem, however progress to date has been lacklustre. The prior government initiated a proposal along with a public consultation in 2022 that received significant engagement and broad support although was unable to follow through with passing any legislation before the election late last year. A collaborative investor engagement to lobby the new Minister responsible for this policy issue has been initiated following the formation of the new government to hopefully continue the momentum in this space.

Another development picking up momentum has been the growth of sustainable finance and the demand to introduce a Green Taxonomy in our country to help classify economic activities that are contributing to our environmental goals. This follows in the footsteps of other taxonomies around the world including the EU Green Taxonomy and the Australian Sustainable Finance Taxonomy under development. This trend has also been covered in our article here.

[1] https://www.morningstar.com/sustainable-investing/globally-esg-funds-suffer-first-ever-quarterly-outflows-fourth-quarter-2023
[2] BloombergNEF Energy Transition Investment Trends: https://assets.bbhub.io/professional/sites/24/Energy-Transition-Investment-Trends-2024.pdf
[3] https://responsibleinvestment.org/resources/benchmark-report/
[4] https://mindfulmoney.nz/learn/voices-of-aotearoa-demand-for-ethical-investment-in-new-zealand-2023-report/

Mount Taranaki

OUR FUNDS IN 2023



Specialist sustainability funds

Harbour Sustainable NZ Shares Fund
Integration and extra exclusions

Harbour Sustainable Impact Fund
Impact, integration and extra exclusions

Core Australasian equity funds

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

Core NZ Fixed Interest Funds

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

Externally managed funds

Harbour T. Rowe Price Global Equity Fund
External

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

Hunter Global Fixed Interest Fund
External

Multi-asset funds

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

The Fund passively invests in companies in the S&P NZX 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 Harbour's 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

Harbour uses quantitative screens in its investment process to rank investment opportunities.

Harbour's 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'. Harbour's 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

Harbour's 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.

Tōtaranui beach, Abel Tasman National Park

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.

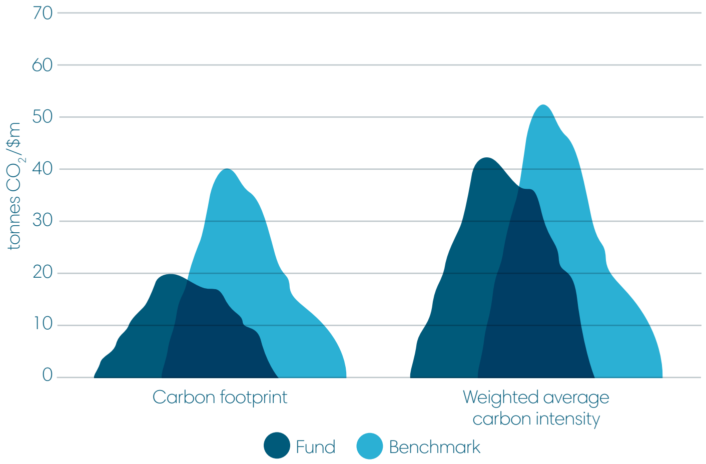
The metrics are consistent with definitions under the Task Force on Climate Related Financial Disclosures (TCFD) guidance, and go some way towards providing more transparency to our investors about the climate change impacts of the funds they are investing in.

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

As of 31 December 2023

Carbon statistics



ESG metrics summary

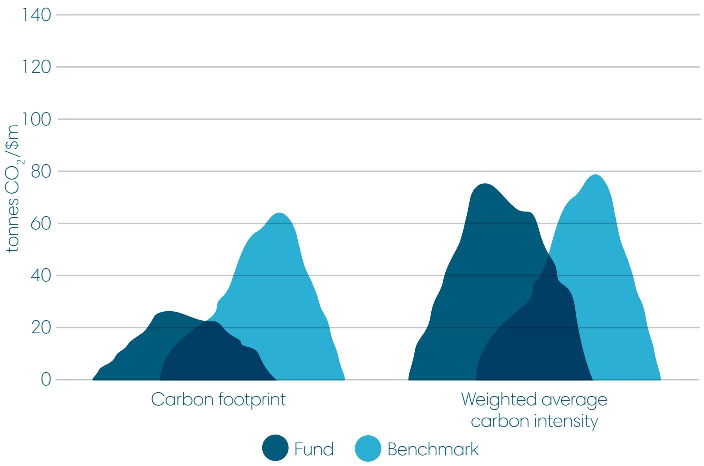
	FUND	BENCH-MARK
Gender diversity (workforce >40% female representation)	64%	64%
Modern Slavery Statement	44%	38%
TCFD Reporting	52%	61%
Majority Independent Board	87%	88%
Science Based Target	47%	54%

Source: Bloomberg, Harbour Asset Management

Harbour Australasian Equity Income Fund

As of 31 December 2023

Carbon statistics



ESG metrics summary

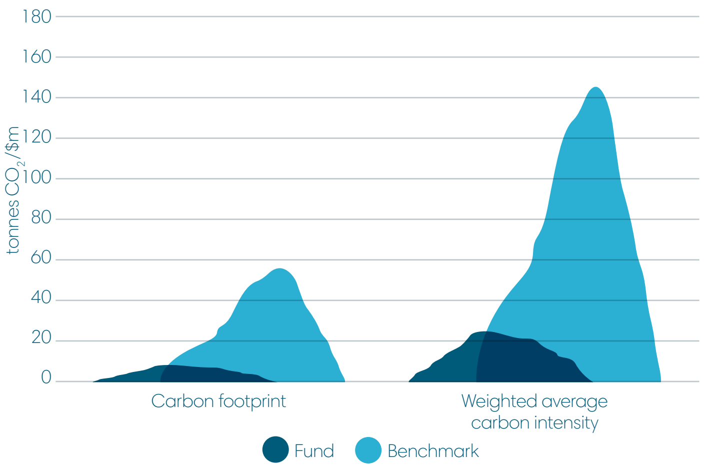
	FUND	BENCH-MARK
Gender diversity (workforce >40% female representation)	46%	57%
Modern Slavery Statement	40%	64%
TCFD Reporting	50%	66%
Majority Independent Board	72%	91%
Science Based Target	39%	22%

Source: Bloomberg, Harbour Asset Management

Harbour Australasian Equity Focus Fund

As of 31 December 2023

Carbon statistics



ESG metrics summary

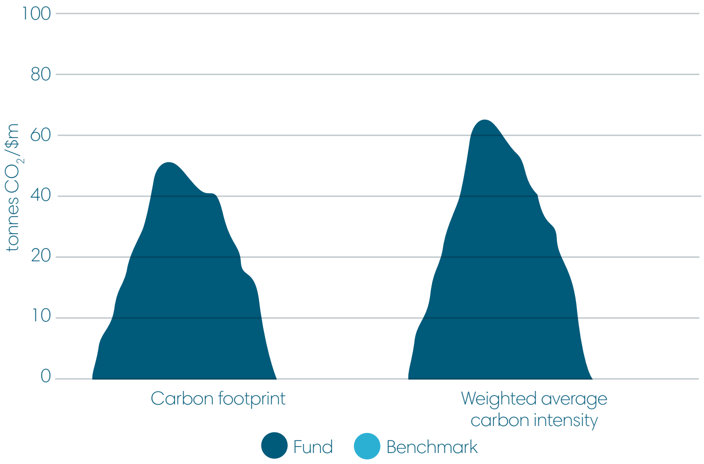
	FUND
Gender diversity (workforce >40% female representation)	56%
Modern Slavery Statement	60%
TCFD Reporting	50%
Majority Independent Board	83%
Science Based Target	22%

Source: Bloomberg, Harbour Asset Management

Harbour NZ Index Shares Fund

As of 31 December 2023

Carbon statistics



ESG metrics summary

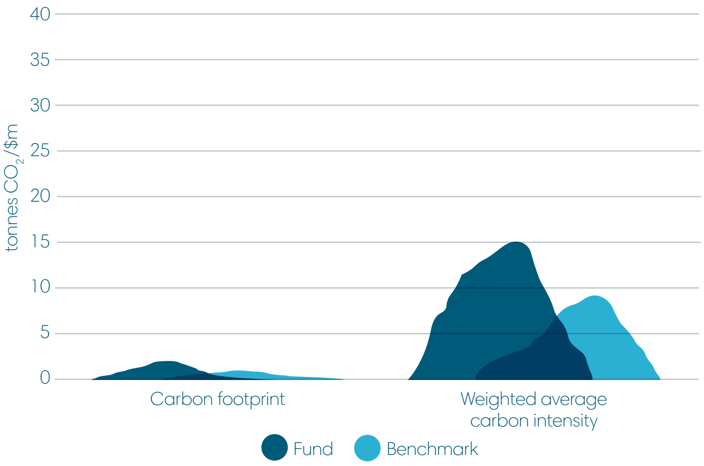
	FUND
Gender diversity (workforce >40% female representation)	63%
Modern Slavery Statement	39%
TCFD Reporting	60%
Majority Independent Board	88%
Science Based Target	38%

Source: Bloomberg, Harbour Asset Management

Harbour Real Estate Investment Fund

As of 31 December 2023

Carbon statistics



ESG metrics summary

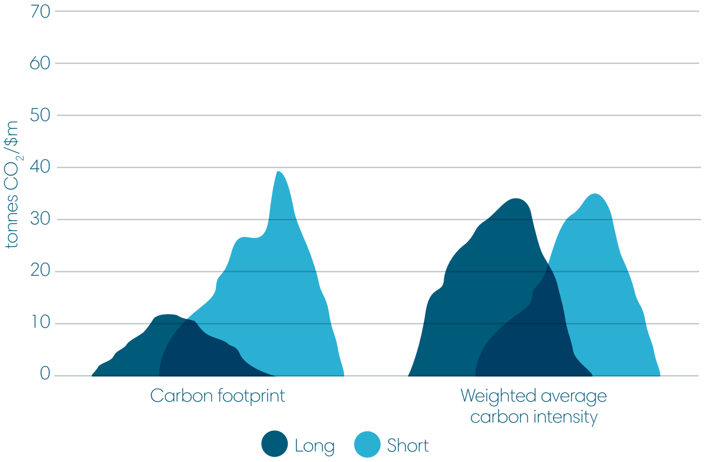
	FUND	BENCH-MARK
Gender diversity (workforce >40% female representation)	68%	70%
Modern Slavery Statement	43%	38%
TCFD Reporting	66%	70%
Majority Independent Board	81%	84%
Science Based Target	7%	0%

Source: Bloomberg, Harbour Asset Management

Harbour Long Short Fund

As of 31 December 2023

Carbon statistics



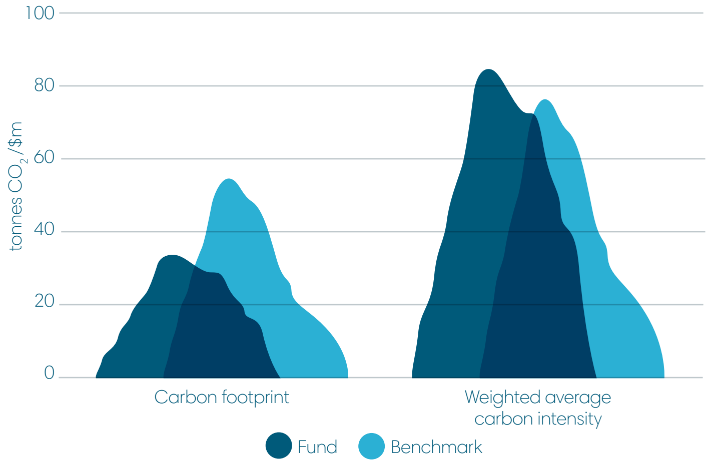
ESG metrics summary

	FUND
Gender diversity (workforce >40% female representation)	55%
Modern Slavery Statement	58%
TCFD Reporting	46%
Majority Independent Board	87%
Science Based Target	21%

Source: Bloomberg, Harbour Asset Management

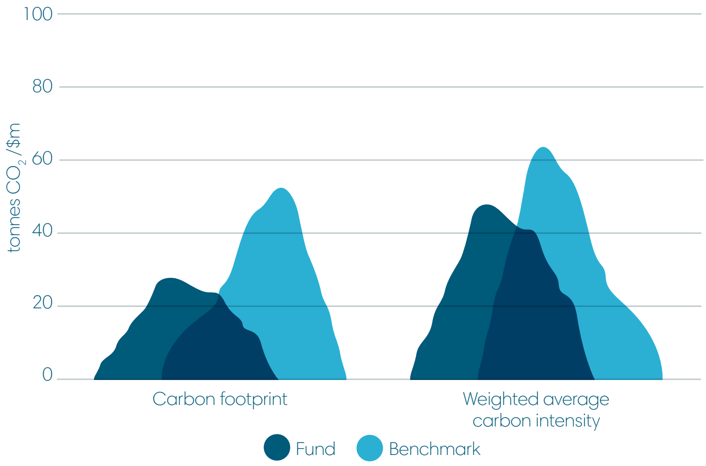
Harbour Active Growth Fund
As of 31 December 2023

Carbon statistics



Harbour Sustainable NZ Shares Fund
As of 31 December 2023

Carbon statistics



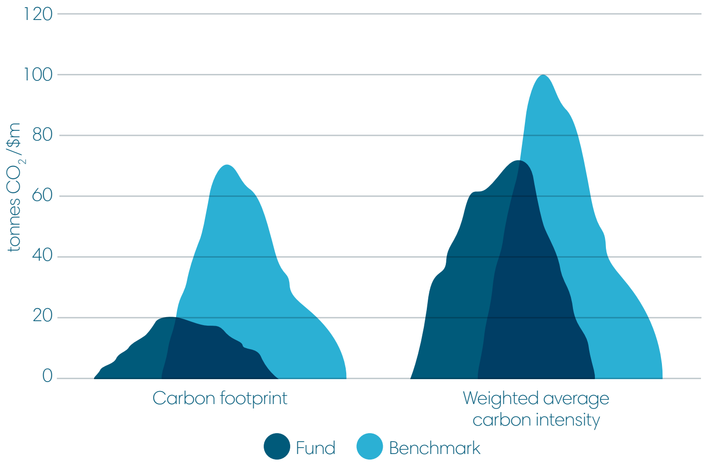
ESG metrics summary

	FUND	BENCH-MARK
Gender diversity (workforce >40% female representation)	64%	63%
Modern Slavery Statement	39%	40%
TCFD Reporting	60%	60%
Majority Independent Board	91%	88%
Science Based Target	39%	38%

Source: Bloomberg, Harbour Asset Management

Harbour Sustainable Impact Fund
As of 31 December 2023

Carbon statistics



In 2023 we also began reporting carbon intensity for the Harbour fixed interest funds. We are the only manager we are aware of to do so.

'Carbon footprint' represents the weighted average of a portfolio's ownership share of each holding company's carbon output, given fixed interest represents lending rather than an ownership stake, calculating a carbon footprint for fixed interest funds is problematic. Harbour's solution to measuring carbon performance is by providing Weighted Average Carbon Intensity which measures the portfolio's weighted average of each borrowing entity's carbon output per million dollars of revenue. This metric is comparable across portfolios (and asset classes). We have published further on our methodology and the challenges of carbon reporting in fixed interest here.

Fund	Weighted Average Carbon Intensity (as at 31 December 2023)
Harbour Enhanced Cash Fund	8.0
Harbour NZ Core Fixed Interest Fund	3.6
Harbour NZ Corporate Bond Fund	14.2

Milford Sound

IMPACT INVESTING

Impact investing is:

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 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 Harbour's 2023 Impact Report.

Temperature score

For the month ending 30 June 2023, the temperature score of the Fund was 1.5°C, whilst the Fund's benchmark had a score of 2.7°C.

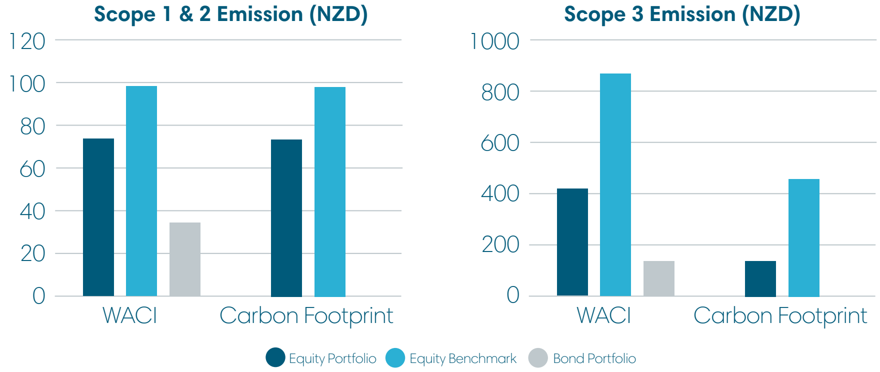
Carbon Footprint

Third-party data from ISS is used to measure the weighted-average carbon footprint across the listed equity holdings within the Fund. ISS is a leader in carbon measurement and company coverage is continuing to grow alongside company disclosure.

In displaying carbon footprint alongside the Fund's benchmark, we also exclude the small allocation to venture capital owing to data availability. As data availability improves, we hope to also measure private company emissions.

	Listed Equity		Fixed Income
	Directly Held	External Managers	
Scope 1 & 2	95.2% (ISS)	100% (ISS)	81.2% (ISS), 16.8% (HAML)
Scope 3			88.6% (ISS)

As discussed in the Navigator mentioned earlier in this section, the New Zealand Government (and related entities) is one of the non-reporting issuers in the portfolio when it comes to carbon data. The 16.8% HAML(Harbour) calculation referred to in the above table is our estimation of New Zealand Government scope 1 & 2 emissions.



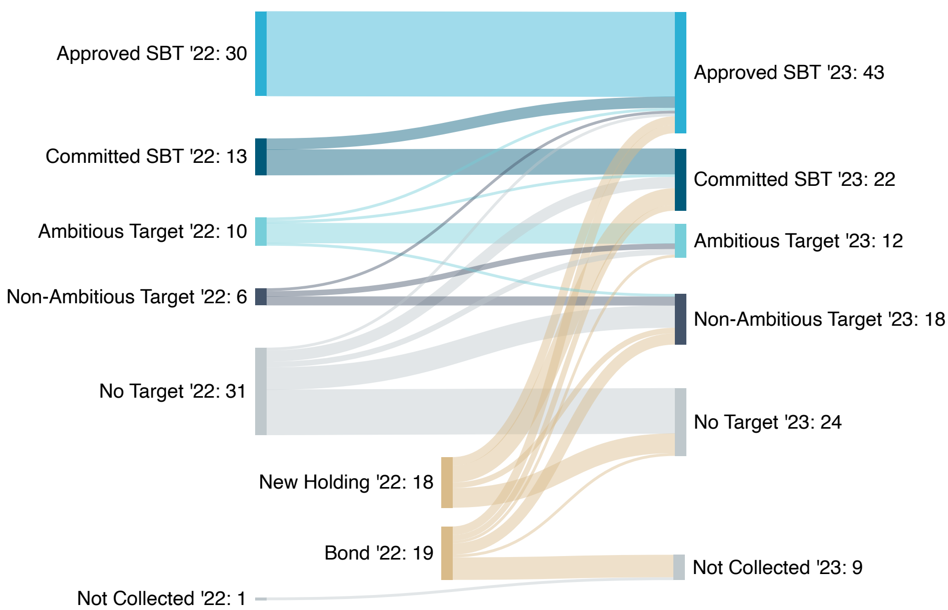
Harbour offsets the Fund's owned emissions each year - for a description of this process and the projects used to access credits see the appendix.

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.

Investee companies with Science Based Targets: 2023 vs 2022



Overall impact scoring

To simplify communication, Harbour provides 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.

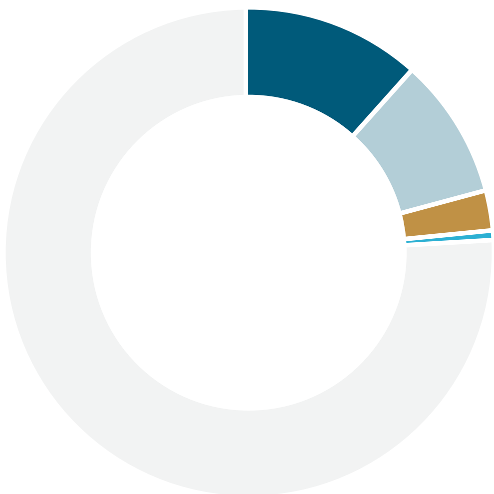
Results as of 30 June 2023 are seen below. At the listed equity sleeve level our aggregate score is 7.5/10, while the benchmark score is 7.0/10. Both scores represent an increase of 0.1/10 versus 2022. For the fixed income sleeve, we have no comparable benchmark figure, however, the aggregate sleeve score is 7.3. We feel this is somewhat understated due to the fact many of the bonds we hold are 'labelled issuance' (for example, Green or Sustainability-linked Bonds) and the impact scores provided by ISS ESG are mapped to issuers rather than each specific issue. This means that the impact of labelled issues will not typically be fully captured by this impact score.

Sub-pillar scores are seen below as weighted averages based on the weight of securities in the Fund, with the sum of the weights showing a coverage ratio of over 80% of the total portfolio. Our overall portfolio score comes in at 7.4/10.

SOCIAL

	EQUITIES		FIXED INTEREST	
	WEIGHT	IMPACT SCORE	WEIGHT	IMPACT SCORE
Social Inclusion	6.6%	6.5	6.9%	7.5
Thriving Communities & Infrastructure	19.4%	6.8	11.1%	6.6
Wellness	10.7%	6.8	2.2%	6.8
SOCIAL TOTAL	**36.7%**		**20.2%**	

ENVIRONMENTAL



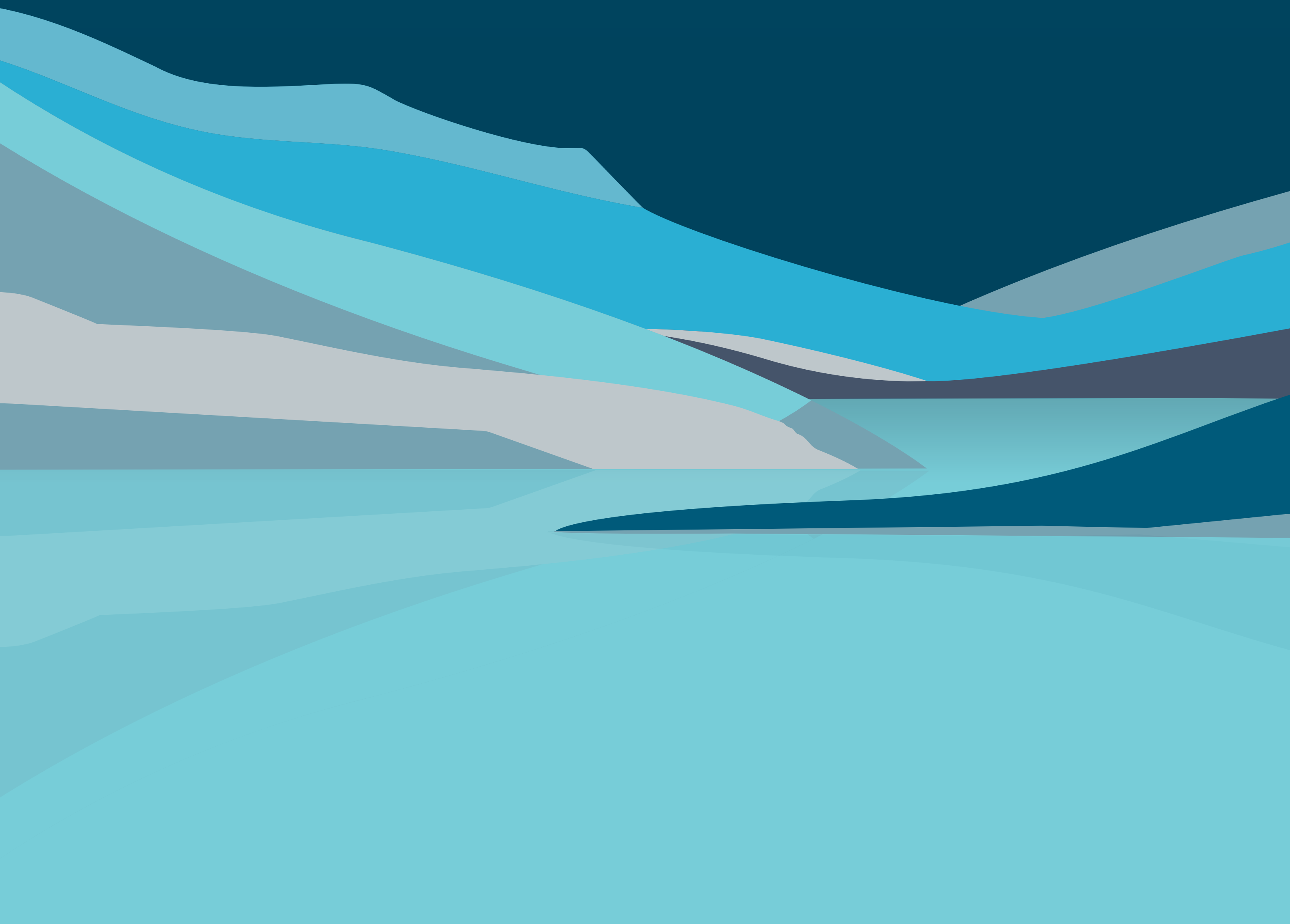
	EQUITIES		FIXED INTEREST	
	WEIGHT	IMPACT SCORE	WEIGHT	IMPACT SCORE
Climate Change Mitigation	11.2%	8.3	9.4%	8.1
Natural Capital	2.5%	7.1	0.0%	
Resource Sustainability	0.4%	7.1	0.0%	
ENVIRONMENTAL TOTAL	**14.1%**		**9.4%**	

*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.

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. Where 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 2023 the Footprint Committee primarily worked on initiatives across multiple sustainability aspects including the environment, workers, ethical procurement and community.

The group also responded to the devastating extreme weather events such as Cyclone Gabrielle by sending Harbour volunteers to Hawke's Bay to help with the recovery work.

CLIMATE CHANGE

Carbon Reduction Progress

Harbour has achieved a significant reduction in its carbon profile relative to our 2019 baseline.

Travel to visit clients and undertake due diligence on investee companies is a fundamental part of our business and is the most significant contributor to Harbour's carbon footprint. Harbour has re-evaluated the way staff travel, encouraging staff to combine trips or lean on technology to minimise flights where feasible. 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. 2023 was a return to normality with a degree of 'catch-up travel'.

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

Total	**167.5**	**54.0**	**43.9**	**87.4**	**132.1**
Scope 1	0	0	0	0	0
Scope 2	2.5	2.8	2.8	3.2	2.1
Scope 3	165	51.2	41.1	84.2	130
Scope 3 Additional	-	-	-	*130*	*105*

Through time carbon measurement continues to improve and we have reported additional sources of emissions. In 2023 we materially increased measurement of our Scope 3 emissions beyond directly controllable operational elements of our supply chain. This is reported as 'Scope 3 Additional' above 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.

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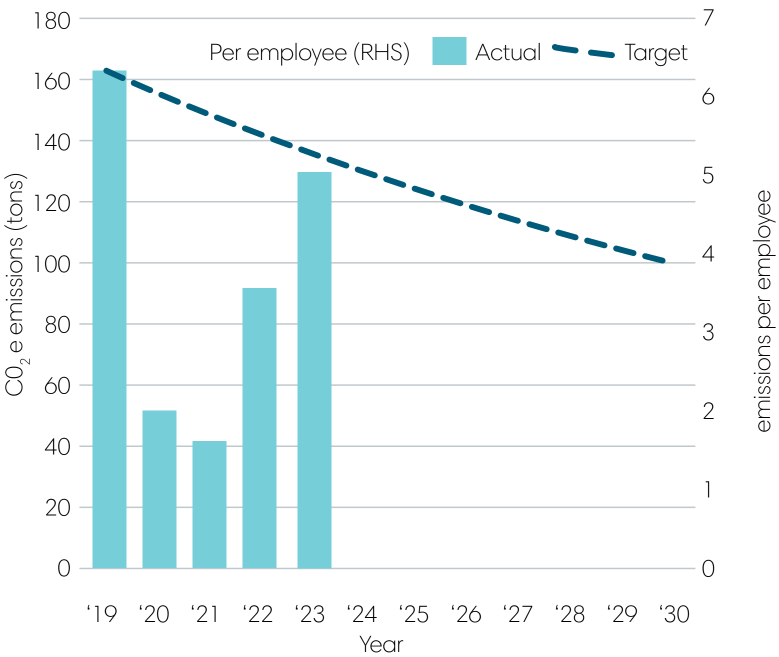
Aoraki / Mount Cook

Progress vs Emissions Reduction Target



Harbour has 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 meet. To demonstrate how much progress we've made we also provide emissions per employee on the right-hand axis.

Carbon Zero certification

Harbour completed Toitū carbonzero certification for the period 2019-2022 as confirmed by annual audits. A 2023 audit will soon be finalised, to ensure accurate measurement of emissions and evidence of reduction plans and initiatives.

Carbon offsets

As a Toitū carbonzero certified company we offset all CO2 emissions we have not mitigated by purchasing carbon credits. Harbour staff undertook a holistic process of evaluating various offset options, not viewing the purchase of offsets as a discharge of responsibilities. Rather than buying carbon offset credits from, say, a monoculture pine forest on prime Hawke's Bay farmland, we sought a project with more holistic benefits and selected a cookstove project that also confers health benefits on the villagers who transition from coal-fired equipment to more sustainable fuels – mostly biofuels. We have purchased credits equivalent to our 2023 unaudited footprint and will be required to increase the purchase if there is a change through the audit process.

Each year we have purchased carbon offsets from a different cookstove project. This year they have been sourced from Ethiopia.

Cookstoves for Coffee Farmers, Ethiopia

Nearly 3 billion people in the developing world cook food and heat their homes with traditional cookstoves 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.

Ethiopia is the country where coffee was first discovered and where Arabica coffee originally comes from. Coffee is the largest export product and plays an important role in Ethiopian culture. Arabica originally grows here in the forest where the foliage of the shade trees protects the coffee bushes against temperature fluctuations. However, due to the increasing population pressure in the country, we are seeing increasing deforestation. This not only removes the shade trees, but also the unique wild types of coffee that grow in the coffee forests of Oromia. These varieties vary in tolerance to disease and drought and can be used for the development of new coffee varieties. These forests are therefore crucial for the survival of coffee in a changing climate.

In the areas where the coffee farmers live, cooking is often done indoors on an open wood fire. This is very harmful to the health of mainly women and children. In addition, the use of wood is a major cause of deforestation in the region. Via the cookstove programme, farmer families are provided with a Mirt and a Tikikil, efficient cookstoves that reduce wood consumption and significantly reduce indoor smoke development.

Eight local Mirt and Tikikil workshops have now been set up and more than 6,000 households are equipped with efficient cookstoves. Users indicate that they suffer less from smoke related complaints, such as coughing, burning eyes and headaches. Women who gather wood save on average about ten working hours a week or €2-3 euros a week if the wood has to be bought.

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)
- The use of wood is a major cause of deforestation in the region, the Mirt and Tikikil cookstoves are far more efficient.

Carbon offsetting is the process of cancelling out the CO2 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 (e.g. renewable energy projects or energy-efficient equipment like cookstoves). The cookstoves project is an avoidance project consistent with ICROA (International Carbon Reduction & Offset Alliance) Code of Best Practice.

CHARITY AND COMMUNITY ENGAGEMENT

Charity partnership

Since 2019, Harbour has continued its 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.

Roots of Empathy

This charity partnership has not precluded one-off donations or fundraising efforts too, for causes such as Te Omanga Hospice in 2023, WELLFed in 2021 and 2022, Women's Refuge in 2020 and the Christchurch Call in 2019.

Volunteering policy

Harbour believes 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 group work 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 individually led activities provides a mix of group activities and collective impact as well as assisting individuals to contribute to causes close to their hearts.

In 2023 the company and staff raised over $14,000 for Roots of Empathy NZ

Hawke's Bay Clean-up


Sponsoring Te Omanga Hospice Golf Fundraiser

The Harbour alliance for 2023 was:

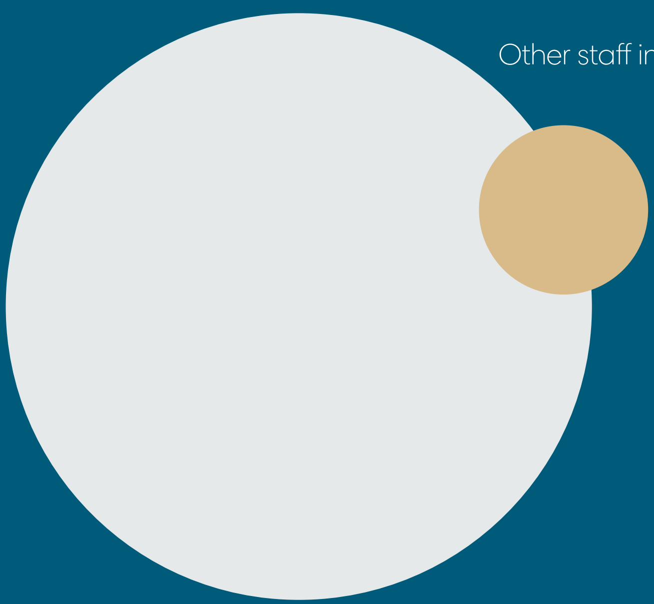
The **Graeme Dingle Foundation's Career Navigator programme** - this programme works with high school kids to broaden their career horizons and provide pathways to employment. Career Navigator is a school-based ready-for-work programme that supports schools to help students:

- 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 2023, staff members mentored students throughout the year, while another group volunteered by conducting mock job interviews for Porirua College students. In addition to the enduring partnership with the Graeme Dingle Foundation, we responded to Cyclone Gabrielle with nine staff travelling to pitch in with the Hawke's Bay Clean Up Crew. Here the team helped remove silt from damaged properties.

In 2023 Harbour staff volunteered a total of 125 hours:



Other staff initiatives: **97 hours**

Graham Dingle: **28 hours**

TOTAL: **125 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.

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.

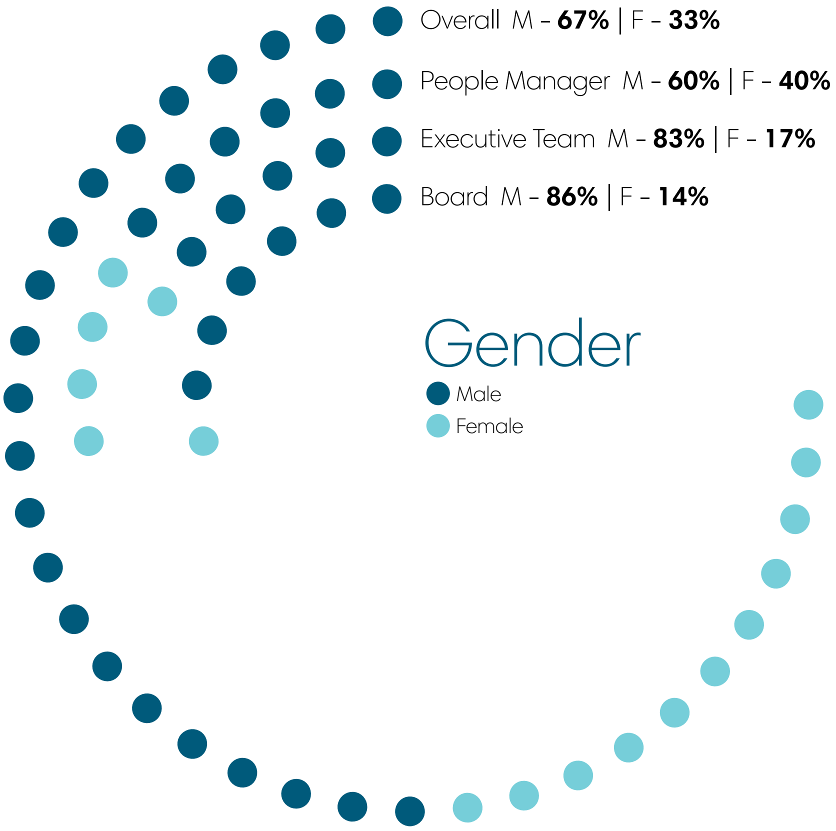
We believe that embracing and celebrating the diversity within our organisation is key to unlocking new ideas, driving engagement, and delivering better outcomes for our clients.

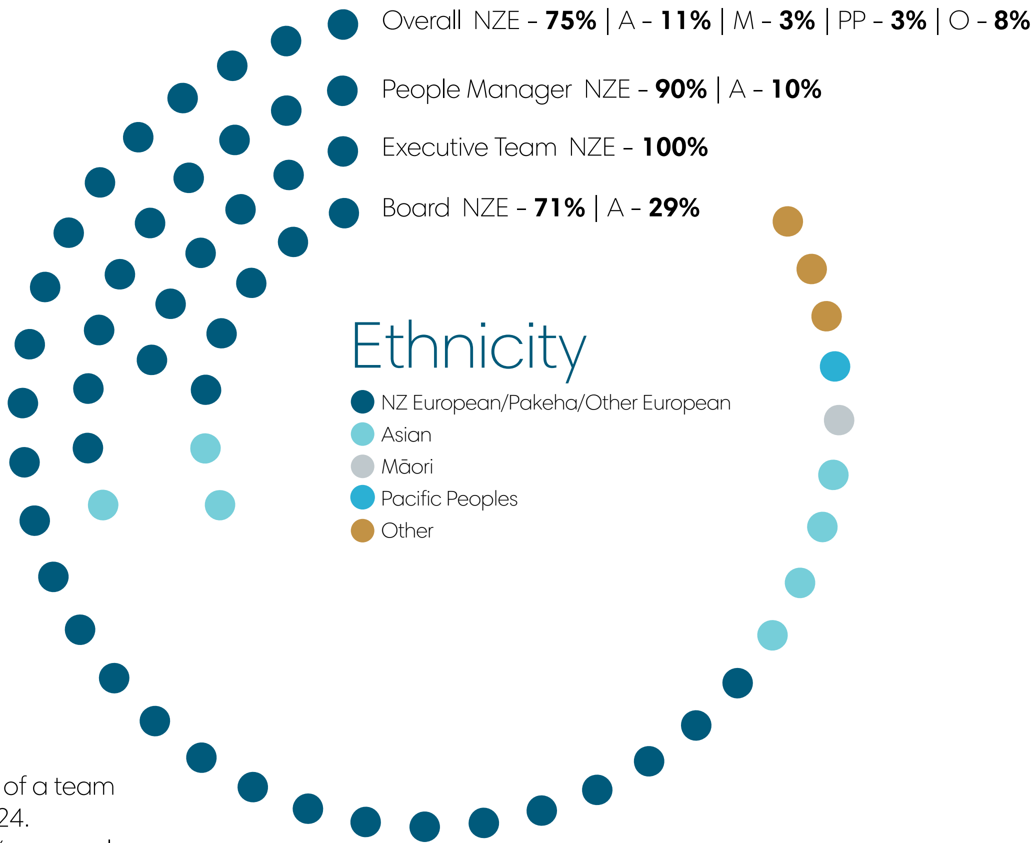
While we have made significant strides, we still have a way to go to meet the 40:40:20 management ratio we advocate for in companies we invest in (40% male, 40% female, 20% of any gender) at a management level, or within our investment team.

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.

DEMOGRAPHICS





Note: These statistics are the result of a team survey undertaken in 2023 and 2024.
Totals may add to more than 100% as people could select more than one option.

Lake Matheson, West Coast

PART THREE

Stewardship report

Cook Straight

STEWARDSHIP REPORT

Stewardship has always been a core part of Harbour's overarching responsible investment approach, reflecting our belief that it is an important lever for achieving positive real-world change in key environmental, social and governance issues.

Harbour has been providing information on our stewardship activity and outcomes on a voluntary basis for multiple years through a variety of channels and this report represents an evolution of our disclosure.

As background, Harbour played a pivotal role in the development of the Aotearoa New Zealand Stewardship Code and subsequently signed on as a Founding Signatory to support its adoption and hold us accountable to its standard.

In Harbour's view, we have complied with all the principles that underpin the code through the information provided in this report as well as our separate stewardship and ESG policy documents. However, we also recognise that stewardship best practice continues to evolve, and we therefore aim to keep improving our approach as well.

Governance

Harbour's governance structure starts with our board of directors who act as the main body for oversight of the whole responsible investing programme, including stewardship.

The primary coordinator of Harbour's stewardship approach is our ESG Manager who is part of the equity team and reports directly to the Head of equities. While the ESG Manager will often contribute to specific engagement and voting activities, the main responsibility is the coordination of the overall strategy, measurement, monitoring and reporting of these activities in line with our investment philosophy.

However, each member of the investment team plays a role in the implementation of stewardship activities according to our engagement and voting processes detailed in our Stewardship Policy.

In particular, the ESG Manager works closely with ESG leads in the fixed income and multi asset teams of the company to ensure a generally consistent approach across asset classes while accounting for nuances (e.g. proxy voting not applicable for bonds).

The investment team has a wealth of experience managing money and undertaking stewardship activity (in some cases decades) and are incentivised through a variable remuneration scheme where responsible investment performance is included as one of the firm-wide objectives. The ESG Manager's compensation is more closely tied to this objective given the nature of the role.

The distribution of stewardship activity across the whole investment team as well as utilising an external service provider ensures there are sufficient resources to support the goals of effective stewardship.

The key reporting mechanism internally is through Harbour's risk committee that comprises managers across the business as well as a board representative. Committee meetings are conducted on a quarterly basis and involve a comprehensive update from each business segment including ESG risk. The stewardship-specific inputs capture all the contentious proxy votes and associated engagements that have occurred over the quarter.

The governance and management structure outlined above has developed organically from a relatively flat organisational structure given the size and stage of the business. From Harbour's experience, it has been an effective way to coordinate and deliver on our stewardship objectives as evidenced by our numerous successful case studies over the years and validation against reputable industry benchmarks.

ESG Incorporation

ESG issues form the basis of our stewardship activity. In line with our engagement philosophy, we initiate discussions with senior management and the boards of companies on material ESG issues in a constructive way to enact positive change.

This is shown through the engagement breakdown section below that summarises the variety of ESG issues that are covered, such as climate change, modern slavery and board composition.

These targeted engagements are supplemented by the general ESG engagement we conduct across our whole NZ investment universe each year as part of our Corporate Behaviour Survey process.

The Corporate Behaviour Survey is our primary way of comprehensively assessing how well each company in our NZ investment universe is addressing ESG considerations with engagement playing a key part. More information can be found in our ESG Policy.

Te Ao Māori and Te Tiriti o Waitangi

The Te Ao Māori value that relates most to our business and the companies we choose to invest in is kaitiakitanga. As fund managers, we act as guardians or stewards for the wealth of our clients and it is our fiduciary duty to invest in a way to benefit our clients and their whānau. We therefore seek to invest in a way that preserves and respects our land and our people to promote the transfer of intergenerational wealth without exploiting our natural and social resources. In our investment process, we therefore favour companies that are actively demonstrating this principle through the appropriate management of their stakeholders and the environment.

In practice, our Corporate Behaviour Survey includes a question on the extent that companies are working with tangata whenua in their operations to ensure that all parties mutually benefit from these business activities. This reflects the Te Tiriti o Waitangi principle of partnership where both parties should act reasonably, honourably and in good faith.

Conflicts of interest

Conflicts of interest are an important consideration when undertaking our engagement and voting activity. Harbour's approach to the mitigation and effective management of any conflicts of interest with respect to stewardship are outlined in our Stewardship Policy.

To Harbour's knowledge there were no evident conflicts of interest with respect to our stewardship activity over the past year. An example of a historical conflict of interest Harbour has managed pertains to a client with a segregated listed equity mandate. Given the client's business is owned by a listed company that forms part of the investment universe for the mandate, a potential conflict arises whenever that company is held within the portfolio.

The client is aware of this and has established a compliance process that Harbour has enacted which involves voting abstention from all shareholder meetings held by that company.

During the time of the company's AGM over the past year, the company was not held in the portfolio so there was no conflict. However, there have been years in the past where this was the case and the shares were not voted according to the agreed upon process with the client.

Policy

For further information regarding Harbour's philosophy, principles and process of our engagement and voting practices, please see our standalone Stewardship Policy. This policy has been developed in accordance with Principle 2 of the Code and undergoes a review process on an annual basis, or more frequently if required.

Review

Our stewardship programme is reviewed each year to ensure we stay up to date with best practice and hold ourselves accountable. This is facilitated through a few key mechanisms such as external controls testing, product certification and internal review processes.

Harbour has sought independent testing through an annual GS007 controls audit which encompasses a broad range of operational processes that includes proxy voting activity. This is a comprehensive audit that involves walk-through demonstrations of the end-to-end voting process as well as collecting random samples of our voting records.

In addition, some of our key equity funds are certified under the RIAA programme which involved an extensive application process and ongoing verification of our responsible investment practices including stewardship. Other industry scorecards such as the PRI annual assessment reports are also used as external benchmarks for our approach.

The internal review and ongoing management of the overarching stewardship approach is coordinated by our ESG Manager with input from others in the investment team. This is aided by established record-keeping processes that track our engagement and voting actions throughout each year to enable us to monitor progress against the objectives and provide transparency to our clients on the outcomes.

Engagement Strategy

Our engagement over 2023 continued to focus on climate change and key social issues such as modern slavery and community impact. Domestically, the extreme weather events at the start of the year were a poignant reminder of the acute effects of climate change and caused us to reach out to affected companies to assess the impact on their people and operations. The other main driver of our climate engagement agenda was the upcoming disclosure regulation given it was the penultimate year before many companies were due to report. Progress on social issues, particularly modern slavery, was adversely affected by uncertainty surrounding the general election towards the end of the year and the subsequent direction of policy settings.

Climate engagements related to the Auckland flooding and Cyclone Gabrielle revealed that company employees were generally safe and well but many of them faced disruption such as not being able to get to work. Operational impact tended to be more significant with some companies noting temporary closure and/or asset damage. Discussions regarding climate disclosure regulation focused on gauging preparedness, and in general companies seemed comfortable given many already had a solid foundation of voluntary disclosure in place. However, they also noted the significant resource and workload that was required.

We have also engaged on climate change at an industry level by participating with peers in a group discussion with our regulator, the Financial Markets Authority (FMA) on the new reporting regulation to express our concerns with implementation from a fund manager perspective and learn what type of approach they would be taking for monitoring and enforcement.

Regarding social issues, modern slavery practices from companies were largely in limbo during the year, awaiting developments in policy settings. Our engagement subsequently focused on collaborating with others in the industry to promote more ambition and clarity around this issue. This included tangible action at the end of the year once the new government was formed to submit a joint letter to the Minister in charge of this work to advocate the implementation of modern slavery legislation in New Zealand and for this to include due diligence requirements rather than being solely a reporting exercise. Other social engagements involved seeking insight into specific initiatives that companies were undertaking to provide positive impacts (in the form of health and education outcomes) to the targeted communities.

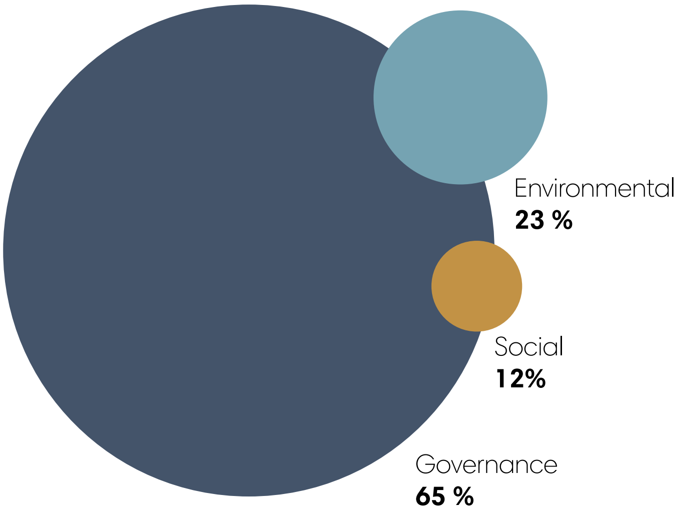
Our engagement strategy also continued to capture companies with contentious ESG issues such as Board composition and executive/director remuneration particularly around company AGMs. There were a higher number of companies this year with contentious director elections and several conversations were had with company Chairs justifying these appointments given concerns over independence and too many directorships (over-boarding). There were also a few cases where we promoted more transparency in the performance criteria for the long term remuneration outcomes of executives.

ENGAGEMENT BREAKDOWN

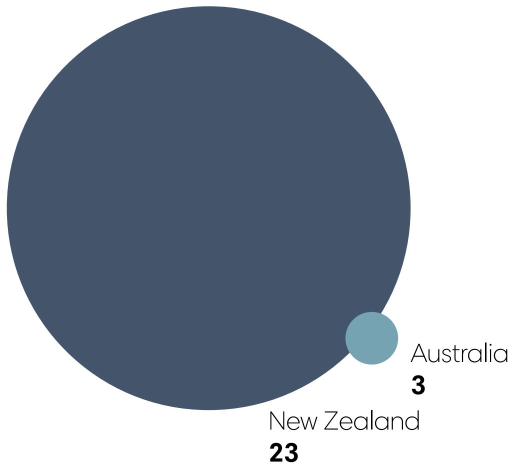
During the year we conducted 26 ESG related engagements on ad hoc issues in addition to the engagements we conduct annually as part of our Corporate Behaviour Survey process.

The ad hoc engagements were mostly for NZ companies rather than Australian companies (23 vs. 3) out of the total 26 conducted. This reflects the fact that Harbour portfolios have a larger weighting to NZ companies compared to Australia and reverses the trend from 2022 given a lower number of contentious governance issues for Australian companies.

Engagements by pillar

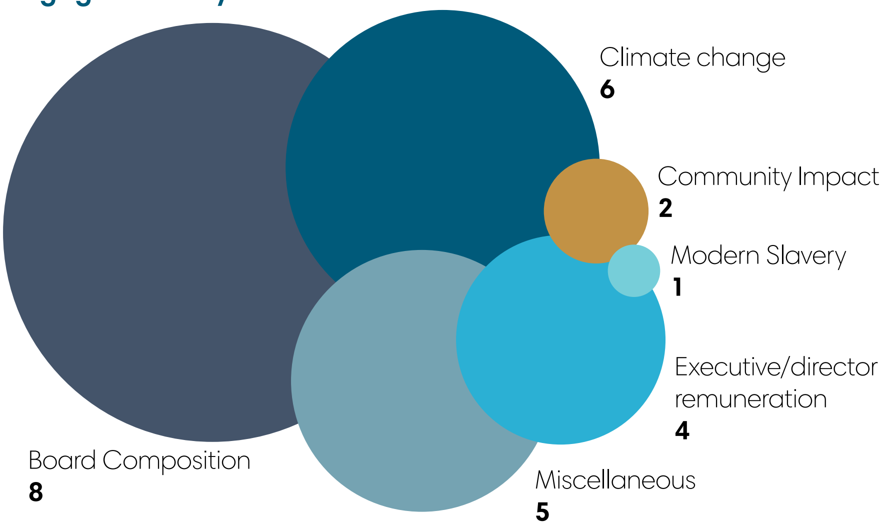


Engagements by geography



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 engagement strategy, we engaged with six companies on climate change and three on social aspects including modern slavery and community impact. We continued to engage on AGM resolutions relating to board composition through eight director election engagements, and four on executive/director remuneration. There were also five engagements on miscellaneous ESG issues such as sustainable financing and stakeholder materiality assessments.

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 acknowledge 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 a NZ agriculture company on the impact of Cyclone Gabrielle given it was significantly exposed to the event. The company explained how the priority was looking after its people, with a helicopter rescuing affected workers for example. There was a material impact on the company's operations given that direct asset damage and remediation costs were yet to be fully quantified at the time.

Outcome: We gained clarity on the company's response to the cyclone and the impact on its people and operations. We were encouraged that the company provided a range of support services to its staff following the event such as emergency accommodation, counseling, and financial contributions. Going forward, we will monitor the company's remediation work and investment into climate adaptation to ensure its resilience to similar events in future.

Case Study 2:

Over the past few years, we have engaged with senior management and the directors of a NZ industrials company on long-standing independence and diversity issues on its board. This has involved multiple interactions and escalation through voting dissent at the company's annual shareholder meetings. During the latest engagement with the company on the issue last year, the board committed to appointing two independent directors within the next two years.

Outcome: We were pleased to see them follow through on this commitment with an announcement in January this year that the board had appointed two female, non-executive directors that would bring valuable skills and experience to the roles and address the independence and diversity issues.

Case Study 3:

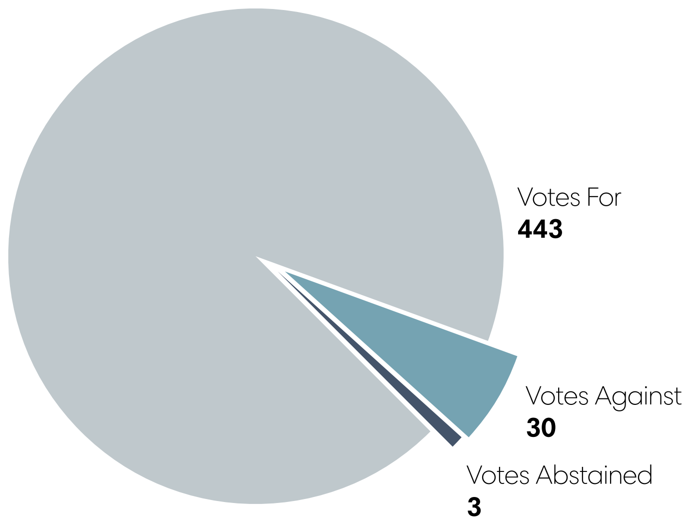
We met with a NZ utilities company's new dedicated sustainability manager to provide feedback on its latest sustainability report. We applauded the company for making a significant improvement in their ESG measurement and disclosure this year, particularly for metrics and targets that spanned across portfolio companies at the group level. We outlined some areas for improvement going forward, such as focusing on progress in tangible sustainability initiatives rather than just policy coverage and providing more detail on climate risks and opportunities.

Outcome: We've seen encouraging progress from the company following this engagement with significant improvement in sustainability disclosure facilitated through a dedicated resource in the space. We will continue to monitor how this evolves over the coming year, particularly whether our feedback is taken into account.

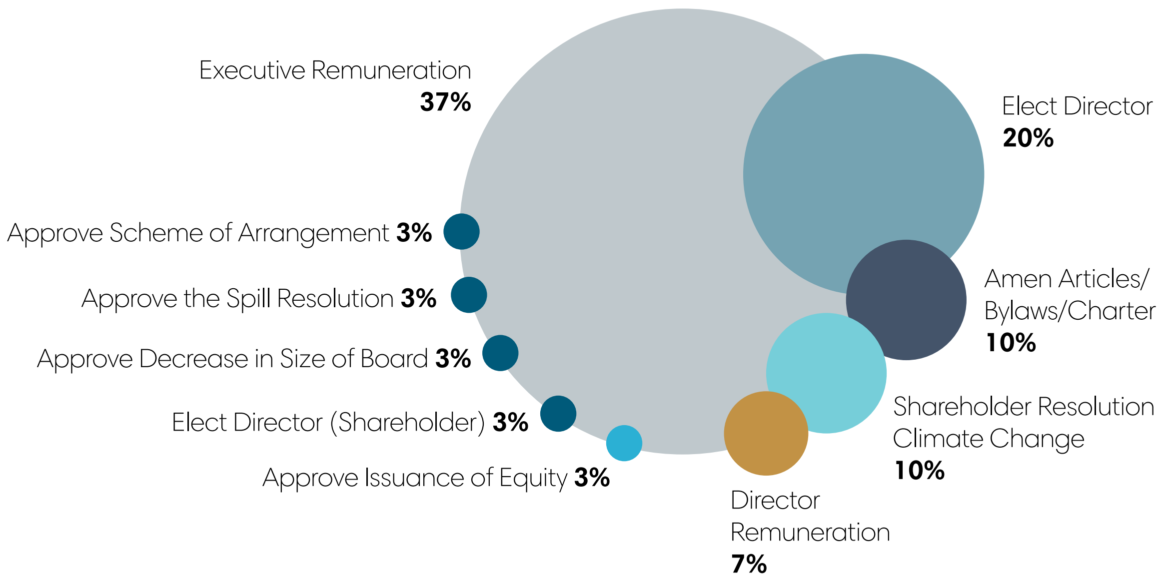
VOTING OUTCOMES

A summary of proxy voting activity for the 12 months to 31st December 2023 is provided through the charts below.

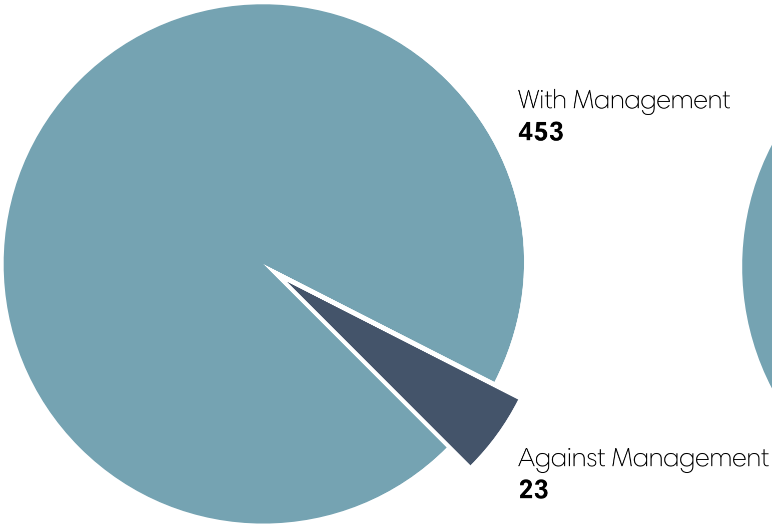
Total proposals 2023



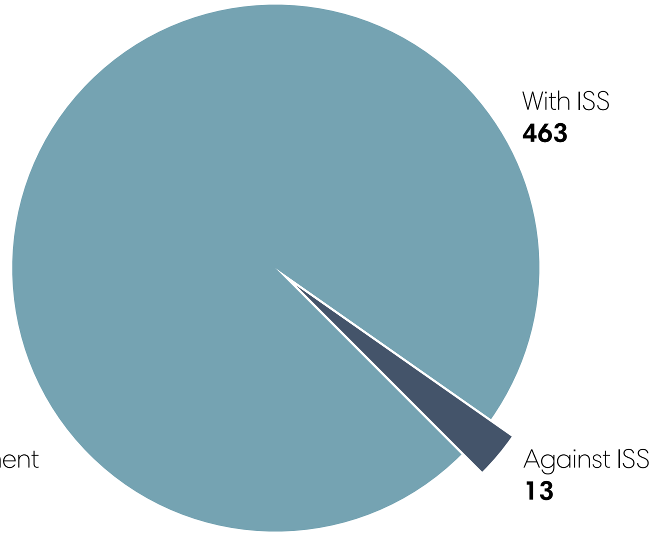
Breakdown of votes against



Management Recommendations



ISS Recommendations



The most prevalent voting resolutions that were contentious over the year related to executive remuneration followed by the election of directors. There were less shareholder resolutions filed compared to the previous year for companies in Harbour funds with these primarily focused on climate change.

On executive remuneration, an example where we voted against management recommendations was regarding two resolutions to approve the bonuses paid to executives at an Australian consumer services company. This was due to the amount of these bonuses being excessive relative to other similar companies as well as the lack of transparency over the performance measures. The results from the AGM showed that the resolutions still passed (with 95% shareholder support).

There were less director elections opposed by Harbour compared to 2022, with most of these oppositions due to factors such as the lack of independence, too many directorships (over-boarding) and poor remuneration governance. There was also a shareholder endorsed director candidate in one case that we did not deem as justified to be appointed and therefore voted accordingly.

Climate change resolutions were 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.

A full list of voting records across Harbour funds are provided on the responsible investing page of our website.

Lake Wānaka

SUMMARY

Overall, the year has seen climate issues take centre stage in our engagement with companies and industry, particularly given the severe weather events that happened over the first quarter. This highlighted the need for companies to have robust emergency response plans in place for these types of events and to focus on investments in climate resilience. Another important climate related engagement theme has been on reporting given the new regulatory standards that are due to kick in from 2024, and we've had many conversations with companies on their progress and readiness.

Looking forward, we expect this issue to continue to be a dominant engagement topic in 2024, but expect to see other sustainability issues like modern slavery and biodiversity gain traction as well.

In addition, we will continue to engage companies as any material ESG issues arise, particularly on contentious areas proposed during company AGMs. This also includes maintaining our dialogue with companies that we have identified as lagging in an issue such as Board independence, remuneration or ESG disclosure, by constructively working with them in the long term to achieve the best outcomes for shareholders.

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