Equity Fund

Harbour Australasian Equity Focus Fund

30 SEPTEMBER 2023

1 month performance	1 year performance	Fund size	Performance since inception
-3.44%	**5.08%**	**$79,907,348**	**11.11%**
Before fees & tax	Before fees & tax	NZD	Annualised, before fees & tax. Inception 10/4/2014

Fund performance was negative and behind its benchmark over the month. Fund performance was negative but ahead of its benchmark over the quarter. Higher long-term interest rates rattled capital markets. Industry disruption, economic recession risk and potential Government policy changes also influenced returns. The healthcare (Fisher & Paykel), real estate (bond yields & tax risk) and consumer staples (a2 milk) sectors dragged the New Zealand market lower over the month. Positive returns from the industrial (Auckland Airport), financial and information technology (Serko) sectors provided some offset over the month. Over the quarter the NZ share market was led lower by the healthcare (Fisher & Paykel), industrials (Auckland Airport, Mainfreight) and consumer staples (a2) sectors. The financial, energy (Channel) and information technology (Serko) sectors generated positive returns over the quarter. The Australian share market fell over the month with bond sensitive property, information technology (IT) and healthcare sectors detracting, and the energy, financials and consumer staples sectors outperforming. The Australian market fell over the quarter with healthcare, consumer staples and IT underperforming, and energy, consumer discretionary and financials outperforming.

Over the month portfolio performance was impacted by weakness in growth companies Xero, IDP Education, CSL, Goodman Group and Ebos. Overweighting of outperformers Serko, Pacific Edge, KMD Brands, Infratil and QBE provided a boost during the month. Quarterly performance was enhanced by positive returns from Summerset, Serko, Goodman Group, Pacific Edge and Infratil. Portfolio performance was negatively impacted by weakness in CSL, Mainfreight, Aroa, Vista and Auckland Airport during the quarter.

Performance	1 MONTH	3 MONTH	1 YEAR P.A.	2 YEAR P.A.	3 YEAR P.A.	5 YEAR P.A.	10 YEAR P.A.	SINCE INCEPTION P.A.
Return before fees & tax, inc. IC	-3.44%	-2.91%	5.08%	-8.82%	3.52%	5.64%	-	11.11%
Benchmark return, inc. IC	-2.62%	-2.98%	7.06%	-1.71%	5.37%	5.89%	-	8.82%

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

Key market movements	1 MONTH	3 MONTH	1 YEAR P.A.	3 YEAR P.A.	5 YEAR P.A.	10 YEAR P.A.
S&P/NZX 50 Gross Index with Imputation (NZD)	-1.87%	-4.82%	3.01%	-0.53%	4.68%	10.19%
S&P/ASX Total Return 200 Index (NZD)	-4.05%	-1.90%	7.22%	10.64%	6.34%	6.96%
S&P/ASX Total Return 200 Index (AUD)	-2.84%	-0.77%	13.46%	11.00%	6.67%	7.43%

Source: S&P/NZX, Bloomberg.

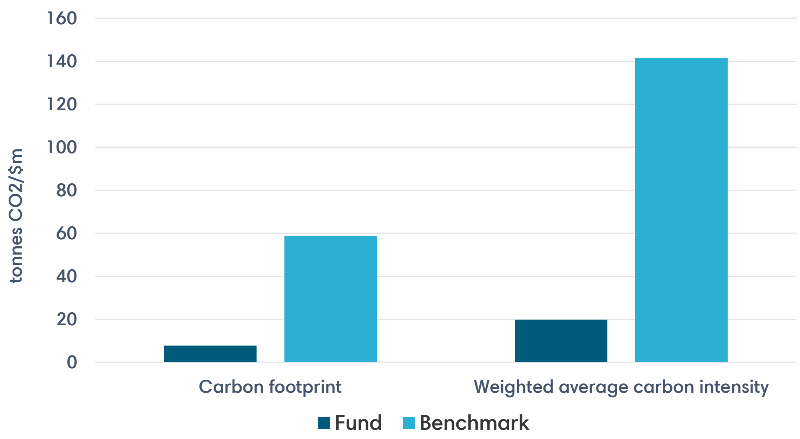
Fund characteristics

	FUND
Return on equity	10.82%
PE ratio forward 12 months	22.9x
Gross yield	2.16%
Expected volatility	14.56%
Hedge on AUD exposure	10.36%

Top 10 holdings

	POSITION
Summerset Group	9.14%
Infratil	8.51%
Auckland International Airport	7.95%
Mainfreight	7.76%
CSL	6.07%
Xero	5.99%
Goodman Group	5.43%
Macquarie Group	4.76%
Ryman Healthcare	4.43%
Serko	3.97%

Carbon statistics



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

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

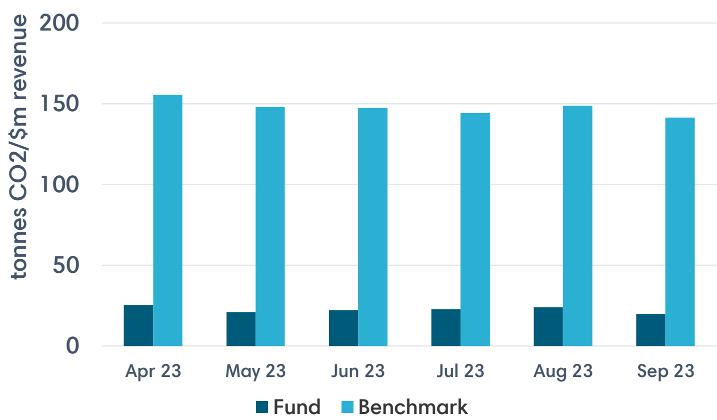
Note: The carbon statistics presented have been adjusted for the extraordinary circumstance of the Channel Infrastructure holding based on data from its latest sustainability report which includes the decommissioning of its refinery operations.

ESG metrics summary

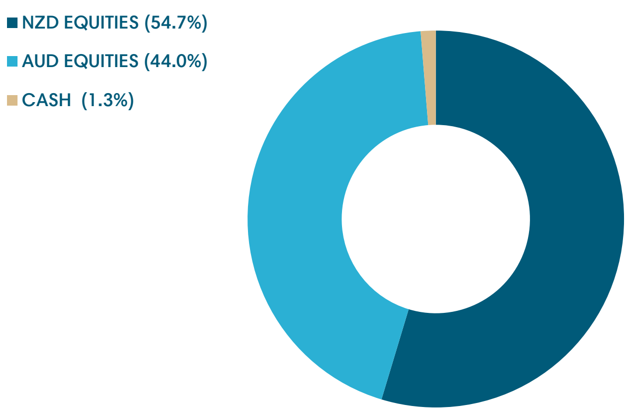
	FUND
Gender diversity (workforce >40% female representation)	43%
Modern Slavery Statement	63%
TCFD Reporting	47%
Majority Independent Board	68%
Science Based Target	24%

Source: Bloomberg, Harbour Asset Management

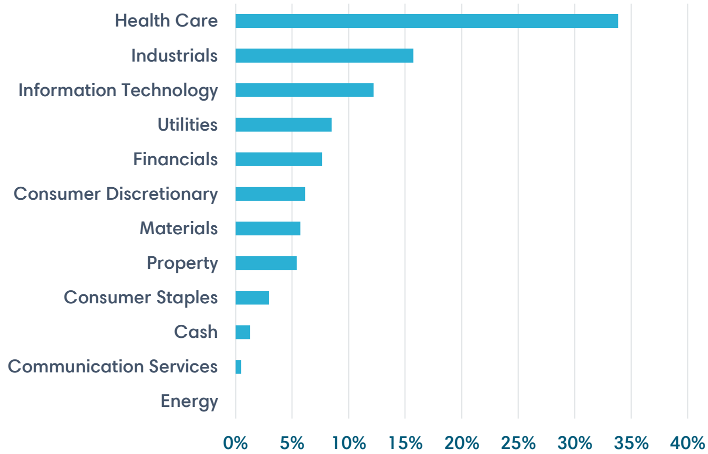
Weighted average carbon intensity



Investment mix



Sector weights



Source: MSCI

Monthly attribution

Largest contributors	AVE. POSITION	TOTAL CONTRIB.	STOCK RETURN
Serko	4.05%	0.39	10.16%
Pacific Edge	1.33%	0.18	15.40%
KMD Brands	2.20%	0.10	4.72%
Infratil	8.29%	0.09	1.16%
QBE Insurance Group	2.48%	0.09	3.42%

Largest detractors	AVE. POSITION	TOTAL CONTRIB.	STOCK RETURN
Xero	6.16%	-0.72	-11.27%
IDP Education	4.12%	-0.58	-13.69%
CSL	6.16%	-0.56	-8.73%
Goodman Group	5.47%	-0.54	-9.34%
Ebos Group	3.99%	-0.34	-8.33%

Quarterly attribution

Largest contributors	AVE. POSITION	TOTAL CONTRIB.	STOCK RETURN
Summerset Group	8.48%	0.63	7.57%
Serko	4.39%	0.56	14.55%
Goodman Group	5.29%	0.36	5.59%
Pacific Edge	1.46%	0.32	38.19%
Infratil	7.82%	0.07	0.67%

Largest detractors	AVE. POSITION	TOTAL CONTRIB.	STOCK RETURN
CSL	6.27%	-0.65	-9.92%
Mainfreight	7.70%	-0.62	-7.95%
Aroa Biosurgery	2.99%	-0.51	-16.09%
Vista Group International	2.28%	-0.43	-16.33%
Auckland International Airport	5.49%	-0.39	-8.58%

Outlook and strategy

New Zealand and Australian share market returns over the month were dominated by the negative impact of higher long term government bond yields on valuations. Higher bond yields increase the return required by investors to put their funds into shares. Factors influencing the sharp increase in bond yields included signaling from central banks that official cash rates need to stay higher for longer to offset sticky inflation, the increasing US Government budget deficit requiring increased bond issuance to fund it and oil prices increasing from below US$70/barrel in June to above US$90 by late September.

The size and pace of the interest rate moves have been significant. 10-year maturity US government bond yields increased from 3.84% at the end of June to 4.6% at end of September – the last time we saw US bond yields this high was 16 years ago in October 2007. 10-year New Zealand government bond yields have increased from 4.6% at the end of June to 5.3% at the end of September – the last time we saw NZ bond yields this high was in May 2011. 10-year Australian government bond yields have increased from 4.0% at the end of June to 4.5% at the end of September – the last time we saw Australian bond yields this high was in October 2011. Share markets don't react well to rapid, sharp increases in interest rates. Often higher interest rates are associated with higher economic activity which is offset by higher earnings. But the latest increase in bond yields happened at a point where earnings growth prospects remain constrained with cyclical businesses giving back much of their recent pricing power.

New Zealand share market weakness reflected the negative impact of higher bond yields on the valuation of future cashflows for more interest rate sensitive shares (bond proxies including Spark, Meridian and Chorus), disruption risk including industry (including Fisher & Paykel Healthcare, Ebos, and a2 Milk) and regulatory (including Sky City) change, economic recession risk (including Ryman and Freightways) and risk around potential changes to New Zealand tax treatment (Precinct and Stride Property).

The portfolio does not own recent underperformers such as SkyCity, a2 milk, Fisher & Paykel Healthcare, Precinct and Kiwi Property. Not owning **SkyCity** which faces regulatory reviews in multiple jurisdictions enhanced relative returns. The New Zealand Department of Internal Affairs sought a 10-day suspension of SkyCity's casino licence reflecting harmful gambling related issues. We remain wary of industries which face increasing social right to operate risk. **a2 Milk** continues to face a slowing demand for its infant formula products with the Chinese birth rate continuing to slide. While some commentators are pointing to the potential for a recovery in the birth rate with the arrival of an auspicious Dragon year in 2024, the last two Dragon years (2000 and 2012) did not contribute to a lift in birth rates year-on-year. During the month a2 Milk gave its infant formula manufacturer Synlait notice that Synlait would no longer be a2's exclusive product manufacturer. While this may improve a2's economics medium term it brings a short-term period of elevated uncertainty. The **Fisher & Paykel Healthcare** share price continued to fall as investors allowed for the potential impact of new weight loss drugs (including the GLP-1 family) on demand for its obstructive sleep apnea (OSA) products. Obesity is associated with the incidence of OSA. Key GLP-1 research studies are set to be released over the next six-to-twelve months which may provide clarity over the success or otherwise GLP-1. Until then the Fisher & Paykel Healthcare share price is likely to remain volatile.

New Zealand listed property share prices fell, including Kiwi Property and Precinct Properties, reflecting the potential removal of deprecation tax shields which would reduce income to investors, the impact of higher interest rates on debt costs and negative asset revaluation updates. Diversified commercial property owner **Kiwi Property** announced a -2.4% independent asset valuation reduction during the month reflecting higher interest rates /capitalisation rates. Kiwi also announce that the conditional sale of a prime central Wellington office building the Aurora Centre, at 56 The Terrace, won't proceed as terms of the conditional had not been met. The combination of the reduced asset valuations, failed asset sales and committed capital investment leave Kiwi in a constrained financial position. Office owner **Precinct Properties** completed a $150m capital raise via a convertible note issue which improves Precinct's financial flexibility as it evolves to being a more active real estate owner, manager, and developer.

Positive returns from emerging companies Serko and Pacific Edge boosted portfolio returns over the month. Online corporate travel booking, and expense management company **Serko** continues to benefit from strong travel activity. Serko's largest customer Booking.com continues to beat expectations, with hotel bookings driving revenue growth. The **Pacific Edge** share price responded positively to supportive submissions by independent US urologic stakeholders released as part of Pacific Edge's Medicare/Medicaid local coverage determination review process. The urological stakeholder submissions highlighted the efficacy and patient preference for using Pacific Edge's tests. Early in October US Federal Drug Administration proposed rule changes that laboratory determined tests, including Pacific Edges Cxbladder, would need to be approved as medical devices, requiring compliance with additional efficacy/safety requirements. There is uncertainty regarding this proposal which some share broking analysts suggest could impact on long term regulatory compliance costs. This issue remains overshadowed by the larger question of reimbursement under the public coverage determination review process.

Shares in **Auckland Airport** outperformed a weak equity market after the Auckland City Council sold its Auckland Airport shareholding down from 18.08% to 11.08%. Christchurch Airport's recent Commerce Commission aeronautical pricing findings were better than expected. **Infratil** held an investor education day during the month which highlighted the growth potential for its US solar energy business Longroad. Longroad has a large pipeline of highly productive development sites with good access to the solar panel hardware required to implement the development pipeline. **KMD Brands** (owner of Kathmandu, Rip Curl, and Oboz) delivered an in-line profit result for the year to July. While the actual result was mixed, good inventory management and prospects of improved summer trading for Rip Curl saw a positive KMD share price reaction in the days after the result. While the near-term sales environment has slowed as household disposable incomes continue to come under pressure, we expect other discretionary retailers likely to come under greater pressure, with Kathmandu and Rip Curl's target customers potentially more resilient. We also note that KMD Brands is only part way through implementing its strategic plan, which will lift underlying profitability.

Investments in Australian growth companies detracted from portfolio returns over the month. Shares in global English language testing (IELTS) and international student placement (SP) services provider **IDP Education** came under pressure following political disagreements between Canada and India. India to Canada student placements is a profitable part of IDP's business. Increased competition in India and regulatory change in Canada may reduce growth prospects for this market. Importantly IDP has a diverse range of placement countries in which to help students find education solutions.

The share price of blood plasma-based pharmaceuticals company **CSL** fell reflecting both the negative impact of higher bond yields on share price valuation and potential disruption risk from competing innovative immunology mRNA-based drugs. Several competitors have announced positive phase 1 data for mRNA immunology drugs over the last few months. If successful, these drugs could reduce long term demand for CSL's immunoglobulin products. In our view the share market has hit the CSL share price hard in reaction to a range of potential but yet to be proven drug technologies. We would also note that should these new technologies prove successful CSL has its own suite of products that could deliver similar benefits.

Shares in building products company **James Hardie** fell over the month as US new home starts slowed reflecting higher mortgage rates. We will be watching closely for signs that US replacement and renovation activity, James Hardie's main business focus, is continuing to improve in the lead up to the new year.

The share prices of Xero and Goodman Group were also negatively impacted by higher bond yields over the period. Both have growth in cashflows that is further out making their share prices more sensitive to the increase in longer term debt costs. **Xero** continues to benefit from better-than-expected price increases. **Goodman Group** continued to see consensus market earnings upgrades over the period reflecting its growing data centre development pipeline.

Outlook – Cyclonic rotation?

In meteorology, a cyclone is a large air mass that rotates around a strong centre of low atmospheric pressure. Weather fronts mark the boundary between two masses of air of different temperature, humidity and densities, and are associated with the most prominent meteorological phenomena. Capital markets also go through their own cyclonic events and currently we are in a **rotation of uncertainty**. Share market volatility over the last quarter has been driven by a strong center of pressure in the form of higher bond yields. Higher interest rates increase the return hurdle required by investors to put money to work in shares. We may be nearing a boundary whereby the pressure of higher interest rates peak, but that peak may be associated with a further cooling in economic activity and potential exogenous capital market storms. In this environment careful stock selection and remaining active may continue to play a key influence on portfolio returns.

Developed market central banks are close to pausing from increasing interest rates, but they may not be there yet. Core inflation indicators are now consistently meeting or coming in below expectations, meaning central banks can continue to take a more measured approach to further tightening of monetary policy. But central banks are likely to retain a hawkish, cautious bias to ensure inflation expectations do not re-accelerate. While bond yields typically peak around the last central bank rate increase, interest rates will probably remain rangebound until there is a more meaningful deterioration in labour market conditions. As in previous cycles we may need an element of turmoil for the bond bear market (long-term interest rates increasing) to stop and bond yields fall. These types of large swings have either come about due to some exogenous factor (i.e. SVB/Credit Suisse banking type issues) or as a result of big macro-economic data misses (e.g., weak US non-farm payrolls growth, an uptick in unemployment, soft consumer price inflation, or an Institute of Supply Chain Manager ISM miss against expectations).

Capital market now reflect an interest rate higher for longer framework. Given the move in capital markets, a hawkish pause by central banks in response to slowing inflation and economic data which allows them to tone down the language associated with monetary policy, may be taken positively by share market investors. Central Banks may continue move to a data dependent watch and wait stance, waiting to see how the lagged impact of interest rate increases to date flow through to activity and inflation. Credit markets are now running at levels above post GFC averages and leading economic indicators are softening. The combination of higher interest rates (both nominal and real) and declining liquidity mean financial markets may continue to struggle in the near term - the effects of interest rates staying high for longer are starting to be felt.

It's a tricky time for the New Zealand economy – it's in a transition with some parts of the economy in recession while others are not. Strong New Zealand migration, with net population growth of 96,200 in the year to July 2023 (exceeding the March 2020 years 91,700) and basing in housing activity is providing support for activity. But credit and lending have tightened up – both in terms of availability and cost – which is a headwind for economic growth. The NZIER quarterly survey of New Zealand business opinion (QSBO) for the third quarter of 2023 points to weaker activity, easing labour market pressures and continued decline in inflation pressures. This is what the Reserve Bank of New Zealand wants - to slow economic growth and avoid inflation spiralling away – and there are signs this inflation spiral is slowing.

Further modest market consensus earnings downgrades over the month were a headwind for share market returns. With -5% plus aggregate consensus earnings downgrades over the past three months earnings expectations have been reset to reflect higher interest costs and a degree of economic slowdown, de-risking future returns to a degree. While consensus share market earnings growth expectations remain modest, reading the business cycle remains difficult – many 'rules' of the business cycle have been broken over the last few years. This has not been a standard cycle in many different respects with profit margins getting squeezed from recent highs If profit margins come under more pressure, we may see businesses announcing business restructures which would be positive. Earnings forecasts remain at risk from the higher cost of debt.

Two trends stand out as potential sources of positive earnings risk - demographics, particularly positive migration, and generative artificial intelligence. As noted earlier, improved demographics have supported aggregate New Zealand demand despite significant headwinds for households on the back of higher living costs, higher interest rates and high inflation. Research suggests that migration is inflationary in year one but becomes net positive in following years for growth and inflation. Similarly in Australia the current boom in Australia's population is driven by record migration. Australia is on a population path to exceed 1.2% annual growth through to 2050, which stands out versus the slowing other countries will experience over this horizon. Fast migration is also slowing the ageing of the Australian population. By 2050, the median age of Australians is expected to be 41.8 years, a significant circa 5 years younger than the OECD.

Research by Goldman Sachs' notes that artificial intelligence (AI) currently represents the most likely potential long-term catalyst for much higher profitability. Goldman Sachs analysis suggests an AI-driven increase in revenues and productivity could lift the trajectory of US S&P 500 share market's annual average earnings per share growth over the next 20 years by 0.5% to 5.4% per annum. Goldman Sachs note that while there is significant uncertainty around the timing of AI's impact, several companies have already begun to discuss ways in which AI will be able to enhance productivity and reduce costs. Goldman Sachs breaks down potential AI investment beneficiaries to Enablers (Select makers of semiconductors and related equipment needed to build AI technology), Hyperscalers (Mega-caps using their extensive cloud computing infrastructures to commercialise AI on a large scale), and Empowered users (Technology companies leveraging AI technology to amplify their businesses). Infratil and Goodman Group's data center assets are enablers for AI growth. Accounting software company Xero is an empowered user, but there are a wide range of other potential empowered users listed on the New Zealand and Australian share markets which may.

Considering market valuations, the New Zealand share market remains fully priced. The 12-month forward market capitalisation weighted Price to Earnings (PE) ratio for the New

Zealand market is currently 21x next year's consensus earnings expectations. This level is +15.4% above the long run average PE since 2006 of 18.2X. The New Zealand market is priced at a 4% premium to its 5-year average PE, excluding the 2020 and 2021 Covid elevated period, of 20.2X. The S&P/ASX200 index is currently trading at 15.4x 12-month forward earnings, a 4.7% premium to its 14.7x long-term (since 2000) average PE. Both markets need to see a lift in earnings to attract growth focused investors.

The 12-month forward market capitalisation weighted prospective pretax gross dividend income yield for the New Zealand share market is currently 5%, which is close to its 5-years average yield of 5.1% (excluding the 2020 and 2021 Covid elevated period), but below the 5.3% yield offered by 10-year New Zealand Government bond yields. The 12-month forward market capitalisation weighted prospective dividend income yield for the Australian share market is currently 4.3%, which is below the 4.5% yield offered by 10-year Australian Government bond yields for the first time since 2011. Until government bond yields fall income focused investors are likely to continue to direct investment away from shares.

Investors have reduced their investment in share markets over the past few months. Global equity positioning is currently in no man's land, with neutral level positioning unlikely to be supportive for returns if macro-economic data is disappointing. But faster money has left the share market, with a notable decrease in US equity exposure from trend-following investors (including CTAs). But longer-term investors are wary. Just over half of the 240 Global Family Offices participating in a UBS family office conference held during September, representing about US$800bn in assets under management, told UBS they expect the US S&P500 market to be about flat over the next 12 months, with another 30% expecting the market to be down by 20-30%. They felt the biggest risk would be persistent inflation followed closely by geopolitical tensions or a central bank policy error. Investor complacency has been replaced by caution.

The current capital market rotation of uncertainty, with yo-yoing markets and faster than normal rotations between sectors and shares, may be creating a medium-term opportunity. Share market valuations have fallen to more reasonable levels. Earnings forecast expectations have reset to be conservative. Potentially earnings risk may be lower than it has been historically, with lower sensitivity to the economic cycle and companies managing profits and balance sheets better than they did 15 years ago, meaning investors don't need the compensation they have historically needed to take on share market risk. And investors have unwound their overweight positions in share markets. A small change in either interest rate or earnings expectations has the potential to trigger an improvement in return prospects. In our view it's time for investors to start thinking about lifting investment in growth assets selectively.

Harbour portfolio positioning

Harbour's strategy remains to position for a range of scenarios and to be selective. We continue to favour investments with structural tailwinds that are less dependent on strong economic activity. We continue to see technology dispersion, de-carbonisation, and demographic changes as supporting company earnings. Businesses exposed to energy transition and the onshoring/nearshoring of manufacturing and storage of goods may face opportunities and threats. We are also favouring businesses with productivity and efficiency 'self-help' programmes, particularly where business reengineering introduces technology that improve both revenue and cost structures. We continue to have a bias to quality, well-capitalised businesses that are less vulnerable to a tightening in financial conditions.

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COMPLIANCE CERTIFICATE

Harbour Australasian Equity Focus Fund (the "Fund")

(Wholesale Unit Trust)

For month ended 30 September 2023

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

Tim Morrison
Head of Compliance
Harbour Asset Management Limited

Dated 04 October 2023

Harbour Environmental, Social and Governance Initiatives

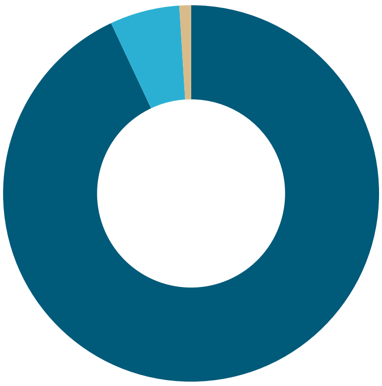
FOR THE QUARTER ENDING 30 SEPTEMBER 2023

Voting statistics

The number of shareholder meeting proposals (100) steadily increased towards the end of the September quarter as we enter the AGM season for Australasian companies. Voting decisions were predominantly consistent with both company management and proxy adviser (ISS) recommendations. Half of the votes against related to either executive or director remuneration proposals while the remaining were split between director elections and an equity issuance resolution.

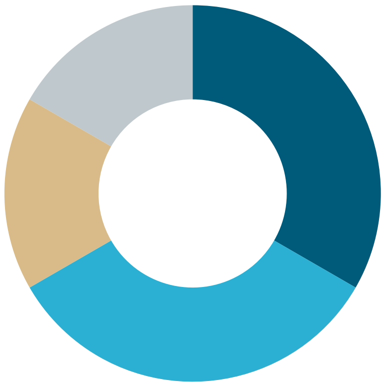
Total proposals

- VOTES FOR (93.0%)
- VOTES AGAINST (6.0%)
- VOTES ABSTAINED (1.0%)



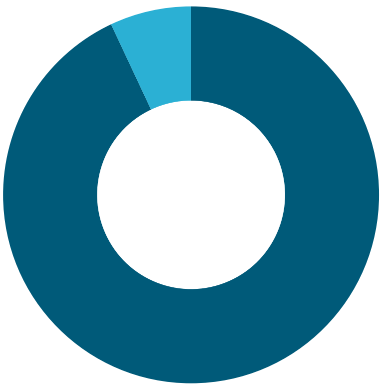
Breakdown of votes against

- EXECUTIVE REMUNERATION (33.3%)
- ELECT DIRECTOR (33.3%)
- EQUITY ISSUANCE CAPACITY (16.7%)
- DIRECTOR REMUNERATION (16.7%)



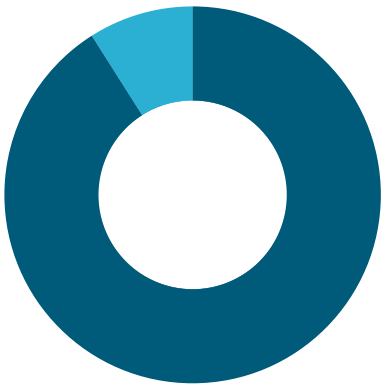
Management recommendations

- WITH MANAGEMENT (93.0%)
- AGAINST MANAGEMENT (7.0%)



ISS recommendations

- WITH ISS (91.0%)
- AGAINST ISS (9.0%)



Corporate engagement & proxy voting

Engagements with companies over the quarter were predominantly governance focused due to contentious AGM proposals and investor roadshows conducted by company boards. However, these discussions often involved other sustainability issues as well such as climate change and diversity.

A common theme discussed with board directors during the roadshow meetings was climate change and how the upcoming reporting regulation is influencing behaviour. One company noted the extensive internal resource that has been dedicated to improving climate disclosures which has been backed up by tangible action as well including a new science-based emissions reduction target. Another company mentioned progress in reporting its carbon data although acknowledged challenges in measuring emissions further down the value chain (scope 3).

Proxy voting activity continued to rise over the quarter with contentious resolutions related to board composition and compensation for both executives and directors. In terms of director elections, there were a variety of reasons that our proxy adviser ISS recommended voting against including the lack of independence, poor board meeting attendance, and as a signal for discontent with remuneration practices. In one case, we chose to abstain from voting for a director as a compromise given the company's board lacked independence but has committed to appointing new independent directors within the next two years. Regarding remuneration proposals, we largely supported these against ISS advice since the compensation structures were generally reasonable and the companies were receptive to improving transparency on them going forward.

Industry engagement

FMA Climate Meeting

We participated in a collaborative engagement with the FMA as part of the Boutique Investment Group on the upcoming climate disclosure regulation. The main highlights from the meeting are provided below:

- The FMA is taking an educative, constructive approach to the monitoring and enforcement of both the climate disclosures and record keeping requirements for the first few years.
- They acknowledge the role that external data providers and the Financial Services Council industry work on scenario analysis will play in helping with the disclosures but emphasise that these need to be overlaid and tailored to each manager's approach accordingly. There also needs to be a reasonable level of due diligence and understanding of the models and/or scenarios used by the data providers.
- The FMA reiterated that for MIS managers, the regulation applies at the scheme level not entity level so there is no need to include climate information e.g. emissions data for the business itself but rather the investment portfolios.

RI Aotearoa New Zealand Conference

We attended and participated in the annual responsible investment conference hosted by RIAA. Our contribution involved moderating a panel session with the CEOs of major power companies on the energy transition. Key take-outs from the conference are provided below:

- The FMA prefers managers to be clear about their approach to geopolitical related events ahead of time, outlining how judgements are made and how the exclusions are implemented. Articulation and substantiation are the two primary ways to avoid greenwashing.
- The External Reporting Board's (XRB) key message with respect to the upcoming climate disclosure regulation is to not aim for perfection and just be transparent where you are at, as enforcement will likely be a 'carrot' rather than 'stick' approach by the FMA. The XRB have issued plenty of guidance documents to help with the reporting including one for MIS managers.
- Meridian Energy are currently negotiating an extension to the NZ Aluminium Smelter contract beyond 2024 along with other industry peers based on four main criteria. Good progress has been made on three of the four, with the last being price. Regarding the government's role in the energy transition, Meridian believes it should be minimised and largely left to the private sector with the right signals from the Emissions Trading Scheme.

NZ Climate Change and Business Conference

We attended a two-day conference on climate change and business hosted by the Environmental Defence Society and Sustainable Business Council. The sessions incorporated a variety of perspectives from climate scientists, policymakers, and business leaders on holistic climate issues as well as sector specific deep dives. Some of the main highlights are provided below:

- Policy – there is consensus between the two major parties on meeting both our 2030 and 2050 emissions targets, but they differ on the sector level mechanisms to achieve them. For example, National intend to rely more on the private sector by reducing regulation around renewable project consents whereas Labour/Greens have been focusing on subsidising projects through a government fund financed by the emissions trading scheme.

- Corporates –Air New Zealand noted the challenges in sustainable aviation fuel uptake (still at least triple the price of normal fuel and high demand from competitors) and also how it is moving away from using offsetting language due to greenwash risk. Fonterra are increasing its ambition on its manufacturing emissions given the support from government funding and intend to set a reduction target on its scope 3 emissions this year.
- Greenwashing – There have been some cautionary tales recently about companies making climate related claims and getting in trouble with regulators e.g. Z Energy and HSBC. There is a new term gaining traction known as 'green-wishing' which is a form of greenwashing where you have bold intentions for positive environmental change but fail to back it up with concrete action. Saying nothing or 'green-hushing' is no longer seen as an acceptable approach by regulators either nowadays.

Australian Climate Conference

We attended the IGCC climate conference which was useful getting insights on how policy, standards, and company action is developing in Australia. Our key highlights are provided below:

- The Australian Government have been active in implementing policy initiatives such as the Safeguard Mechanism and have recently announced a plan to publish sector specific decarbonisation pathways to help meet the federal climate targets.
- On the reporting side, Australia is implementing mandatory climate disclosures with Treasury in the middle of a public consultation process. An exposure draft is expected to be delivered by the end of the year.
- In terms of listed company perspectives, BHP and ANZ were the main two that presented on their climate strategies. On the tricky issue of divestment versus closing high emitting assets, BHP stated that during any sales process, part of the due diligence involves assessing how well those assets would be managed by the prospective buyer. ANZ is part of the net zero banking alliance and by the end of next year plan to have sector specific targets for nine priority sectors of its lending portfolio representing three quarters of its financed emissions.

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