

Harbour Investment Funds

Other Material Information Document

Issued by Harbour Asset Management Limited

19 June 2017

This document replaces the Other Material Information Document dated 21 September 2016

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1. General

This Other Material Information Document (Document) has been prepared to meet the requirements of section 57(1)(b)(ii) of the Financial Markets Conduct Act 2013 (FMC Act) and clause 52 of Schedule 4 of the Financial Markets Conduct Regulations 2014 (FMC Regulations). You should read this in conjunction with the Product Disclosure Statement (PDS) and Statement of Investment Policy and Objectives (SIPO) for the Harbour Investment Funds. If you are a 'retail investor' under the FMC Act you must be given a copy of the relevant PDS before we can accept your application for units.

All legislation referred to in this Document can be viewed at www.legislation.govt.nz.

In this Document, "you" or "your" refers to a person or entity that invests in the Harbour Investment Funds, whether directly or through a Portfolio Investor Proxy (PIP) platform or similar administration and custodial service. If you hold units through a platform or similar administration and custodial service, please note section 10 "Investing through platforms" on page 15. "We", "us", "our", "Harbour" or "the Manager" refers to Harbour Asset Management Limited. Words defined in the Product Disclosure Statement have the same meaning when used in this Document, unless they are otherwise defined in this Document.

Management of the Harbour NZ Corporate Bond Fund was transferred from the former manager, First NZ Capital Investment Management Limited, to Harbour on 31st December 2010. The name of the Fund was changed from the First NZ Capital Abacus NZ Bond Fund to the Harbour NZ Corporate Bond Fund on that date.

2. Funds

This Document relates to the offer of units in the following Harbour Investment Funds (note the dates the Funds started relates to the date the conditions of establishment supplemental to the Trust Deed were established).

<u>Fund</u>	<u>Date the Fund started</u>
NZ Core Fixed Interest Fund	24 May 2011
NZ Corporate Bond Fund	16 February 2009
Income Fund	28 October 2015
NZ Equity Advanced Beta Fund	3 December 2014
Australasian Equity Income Fund	1 November 2011
Australasian Equity Fund	11 April 2010
Australasian Equity Focus Fund	10 April 2014
T. Rowe Price Global Equity Growth Fund	21 October 2015

The Funds are constituted within a registered scheme called the "Harbour Investment Funds", registered scheme number SCH10815 (Scheme). The Scheme is governed by the revised Trust Deed dated 21 September 2016 and the Funds are invested in accordance with their SIPO dated 19 June 2017. You can get an electronic copy of the Trust Deed and SIPO from the scheme register on Disclose (www.business.govt.nz/disclose).

3. Manager

The manager of the Funds is Harbour Asset Management Limited. We were incorporated in New Zealand under the Companies Act 1993 on 11 April 2006 as FNZC Nominees Limited and we changed our name to Harbour

Asset Management Limited on 1 December 2009. Our ultimate holding company is First NZ Capital Holdings Limited. We are responsible for the investment management and administration of the Funds.

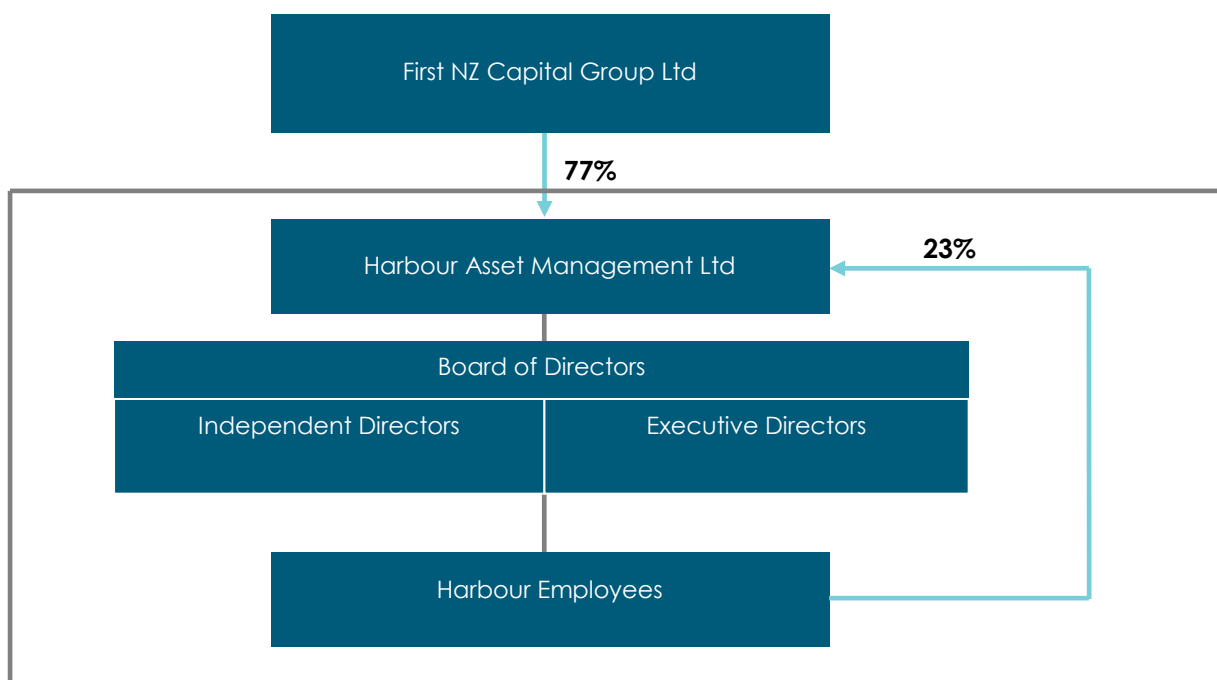
We are the manager of the 8 retail investment Funds set out on page 3. We are also the manager of a number of wholesale investment funds and several individually managed accounts (“IMAs”).

After a comprehensive due diligence process, Harbour selected T. Rowe Price to undertake portfolio management of the T. Rowe Price Global Equity Growth Fund based on Harbour’s assessment of T. Rowe Price’s thorough process, extensive research capabilities and skilled and collaborative team. As the Fund’s issuer, Harbour periodically reviews T. Rowe Price’s suitability.

We were granted a licence to act as the manager of a registered scheme under the FMC Act by the Financial Markets Authority (FMA) on 30 January 2015. The licence has a 5 year term to 30 January 2020, subject to us maintaining the same or better standard of capability, governance and compliance as was the case when the FMA assessed our licence application. The licence is subject to the normal conditions imposed under the FMC Act and the FMC Regulations, and the standard conditions imposed by the FMA.

Parent Company

As at the date of this Document, Harbour is currently 76.5% owned by its parent, First NZ Capital Group Limited and 23.5% owned by Harbour employees. A long-term incentive scheme sees annual awards of further equity ownership and also provides vesting arrangements for investment in Harbour Funds to sit alongside clients. Harbour staff do not have any pecuniary interest or involvement in First NZ Capital Group Limited (First NZ Capital).



The ultimate parent, First NZ Capital Holdings Limited, is 100% privately owned by directors, management and employees of that business. There are 86 shareholders in First NZ Capital Holdings Limited, with the largest shareholder owning more than 10% of the business.

Our Board of Directors

At the date of this Document our directors are:

Graeme Wong - Independent Chairman

Wellington, New Zealand

Graeme has a background in stock broking, capital markets and investment. Graeme founded and became Executive Chairman of Southern Capital Limited which listed on the NZX and evolved into Hirequip New Zealand Limited. The business was sold to private equity interests in 2006. Previous directorships include New Zealand Farming Systems Uruguay Limited, Sealord Group Limited, Tasman Agriculture Limited, Magnum Corporation Limited, At Work Insurance and alternate director of Air New Zealand Limited. Graeme is currently director of Tourism Holdings Limited, Areograph Limited, Precinct Properties New Zealand Limited and shareholder and director of Southern Capital Partners (NZ) Limited as well as a member of the Trust Board of Samuel Marsden Collegiate School and member of the Management Board of The Bible Society Development (New Zealand) Incorporated.

Graeme has an indirect shareholding in Harbour and is also a beneficial owner of units held in the Australasian Equity Focus Fund.

Wayne Stechman - Independent Director and Chair of Audit Committee

Wellington, New Zealand

Wayne retired from Tower Asset Management Limited in 2008 after 18 years as Portfolio Manager and Head of Australasian Equities. Prior to that Wayne worked for a leading share broking firm as an investment adviser/portfolio manager. Wayne has 30 years' experience in the financial services and funds management industry in New Zealand. Other current roles include Trustee of the National Provident Fund and panel member of Financial Services Complaints Limited.

Wayne has a shareholding in Harbour.

Bill Trotter - Director

Wellington, New Zealand

Bill is a director of Harbour. Bill is also Chairman of First NZ Capital, appointed in 2002. He was previously Chief Executive of First NZ Capital and a Managing Director of Credit Suisse First Boston. Bill has a wide range of experience in capital markets and corporate transactions.

Bill has a shareholding in Harbour's ultimate holding company, First NZ Capital Holdings Limited.

Richard Young - Director

Auckland, New Zealand

Richard joined First NZ Capital in 1994 (the firm was then known as CS First Boston) and has over 20 years' experience in the New Zealand and overseas banking and securities industry. Richard is responsible for the financial management and reporting of the firm, and in particular, oversees the securities, treasury and credit risks the firm may be exposed to. Richard is a member of both the Executive Management Committee and the Investment Risk Committee. He is also a member of the New Zealand Institute of Chartered Accountants.

Richard has a shareholding in Harbour's ultimate holding company, First NZ Capital Holdings Limited.

Andrew Bascand - Managing Director and Portfolio Manager

Wellington, New Zealand

Andrew has responsibility for the Harbour Australasian Equity Fund. Prior to joining Harbour, Andrew spent 10 years with AllianceBernstein (NZ) as Senior Vice President and Portfolio Manager responsible for portfolio construction of all Australasian mandates. In that role Andrew and his team were consistently recognised by the industry for excellence in funds management. Andrew has more than 33 years' investment management experience in roles with the Reserve Bank of New Zealand, Bank of England, AMP and with Merrill Lynch Global Asset Management (UK) as Managing Director of Global Equity Products. With Merrill Lynch, Andrew managed global Equity accounts for pension funds in Japan, Sweden, Spain, Chile, England, the United States, Germany and South Africa.

Andrew has an indirect shareholding in Harbour and also holds units in the Harbour Australasian Equity Income Fund, the Harbour Australasian Equity Fund, Harbour Australasian Equity Focus Fund and the T. Rowe Price Global Equity Growth Fund.

We and our directors can be contacted at:

Harbour Asset Management Limited

Level 16, 171 Featherston Street

PO Box 3363, WELLINGTON 6140

Telephone: 04 460 8300 Facsimile: 04 460 8301 E-mail: contactus@harbourasset.co.nz

Key personnel

At the date of this Document, key investment personnel for the Funds are:

Andrew Bascand, Managing Director and Portfolio Manager

(Details included in the 'Our Board of Directors' section above).

Craig Stent, Portfolio Manager & Research Analyst

Craig is responsible for managing the Harbour Australasian Equity Income Fund. He is also responsible for the stock research and ratings on retail, utility and energy sectors. Craig also provides portfolio management oversight and assists in managing the relationship with key outside parties such as Trustees Executors Limited and Bloomberg. As a Research Analyst, Craig provides company analysis and modelling. In addition Craig is well respected for his risk modelling and portfolio construction and implementation. Prior to joining Harbour, Craig was employed by AllianceBernstein New Zealand for seven years. Craig began his time with AllianceBernstein as a Client Relations Associate before moving to Assistant Research Analyst in July 2004. Craig has previously worked for the Bank of New Zealand, Chase Global Investor Services (London) and the Bank of Ireland in roles responsible for monitoring and controlling daily cash activity and management of support staff for Foreign Exchange Trading Desks. Craig is a Chartered Financial Analyst (CFA) charter holder.

Craig has a shareholding in Harbour and also holds units in the Harbour Australasian Equity Income Fund, the Harbour Australasian Equity Fund and the Harbour Australasian Equity Focus Fund.

Shane Solly, Portfolio Manager & Research Analyst

Shane is portfolio manager of the Harbour Australasian Equity Focus Fund. He is also responsible for the stock research and ratings on the infrastructure and property sectors. Prior to joining Harbour, Shane was employed by Mint Asset Management Limited for seven years as Portfolio Manager. He has also had senior roles at Goldman Sachs (NZ) Limited, ING (NZ) Limited and AXA Limited. In these roles Shane has helped manage clients' money across high conviction New Zealand and Australasian equity portfolios and listed property portfolios. Shane is well respected in markets and has helped deliver impressive investment performance for his clients over many years. Shane is a CFA charter holder.

Shane has a shareholding in Harbour and also holds units in the Harbour Australasian Equity Focus Fund.

Susanna Lee, Implementation Manager and Quantitative Research Manager

Susanna's primary role is supporting the equities team in quantitative and financial modelling and portfolio implementation. Prior to joining Harbour, Susanna was employed by AMP Capital as a Quantitative Investment Analyst, where she provided quantitative analysis, analytics for portfolio modelling and risk for portfolio reporting and monitoring across multi asset classes. She also manages the Harbour NZ Equity Advanced Beta Fund. Susanna began her career in 2008 at AXA in Wellington, holds a Dean's List Award for her Bachelor of Business Studies with Honours in Finance, and is currently a Chartered Financial Analyst candidate.

Christian Hawkesby, Head of Fixed Income & Economics

Christian has responsibility for Harbour's fixed income business. Prior to joining Harbour, Christian spent 9 years at the Bank of England, where he held a number of senior positions, including Head of Market Intelligence, Chief Manager of the Sterling Markets Division, and Private Secretary to the Deputy Governor. While in the Bank of England's dealing room, Christian was responsible for analysis and research, relationships with London and Edinburgh asset managers, designing and launching the special Sterling Corporate Bond Scheme, and advising on the Bank's purchase of £200bn UK government bonds for quantitative easing. Christian began his career at the Reserve Bank of New Zealand (RBNZ) in 1998, where he spent time as both an analyst in the NZ cash, fixed income and FX markets, and as an economist running the RBNZ macro-economic model.

Christian has a shareholding in Harbour and also holds units in the NZ Corporate Bond Fund and NZ Core Fixed Interest Fund.

Mark Brown, Head of Fixed Income Portfolio Management

Mark's primary responsibilities lie with the fixed income and income fund management process, incorporating credit, FX and rates strategy, portfolio construction and risk management. Mark has an established history providing care for clients and their fixed income portfolios. For 16 years Mark led the fixed income portfolio management team in a continuous capacity at the business that evolved as National Mutual Funds Management, AXA and then AllianceBernstein. He has produced consistently sound and competitive investment performance throughout, notably including the 2007-2009 global financial crisis. Mark has expertise across the breadth of fixed income disciplines, including risk management, economics, credit and quantitative analysis. Mark began his portfolio management career at Credit Suisse Asset Management (London) in 1992, having previously worked for DFC New Zealand and the Bank of New Zealand.

Mark has a shareholding in Harbour and also holds units in the Harbour NZ Core Fixed Interest Fund.

4. Supervisor

Trustees Executors Limited (TEL) is the Supervisor for the Funds (Supervisor).

TEL was incorporated in New Zealand in 1881 under the Joint Stock Companies Act 1860, and re-registered under the Companies Act 1993 on 30 June 1997. On 1 May 2002 in New Zealand, TEL's status as a statutory trustee company was reconfirmed under its own Act of Parliament, the Trustees Executors Limited Act 2002. TEL's ultimate holding company is Sterling Grace (NZ) Limited, incorporated in New Zealand on 30 July 2003.

A current list of the directors of the Supervisor is available online at www.business.govt.nz/companies. The directors of the Supervisor may change from time to time without notice to you.

5. Market index information & risk indicator calculations

Each Fund's returns are measured against various market indices as set out in the SIPO. These are below. Where the Funds have not been running for 5 years, the below indices have been used to calculate the risk indicator.

NZ Core Fixed Interest Fund

Inception date of fund: 24 May 2011

Benchmark: 50:50 weighted average of the S&P/NZX Government Bond Index and S&P/NZX A Grade Corporate Bond Total Return Index (*Fund has been running for more than 5 years so no index return data used to calculate the risk indicator*).

NZ Corporate Bond Fund

Inception date of fund: 28 February 2009

Benchmark: S&P/NZX A Grade Corporate Bond Total Return Index (*Fund has been running for more than 5 years so no index return data used to calculate the risk indicator*).

Harbour Income Fund

Inception date of fund: 28 October 2015

Benchmark & market indices used to calculate risk indicator prior to inception date: 68% S&P/NZX A Grade Corporate Bond Total Return Index; 16% S&P/ASX 200 Industrials Index (100% hedged to NZ Dollars); and 16% S&P/NZX Portfolio Index. Risk indicator calculations use this benchmark data. Prior to the 19th June 2017, the benchmark for this fund was 70% S&P/NZX A Grade Corporate Bond Total Return Index; 18% S&P/ASX 200 Index (90% hedged); and 12% S&P/NZX Portfolio Index.

Harbour NZ Equity Advanced Beta Fund

Inception date of fund: 3 December 2014

Benchmark & market indices used to calculate risk indicator prior to inception date: S&P/ NZX Portfolio Index including imputation credits.

Harbour Australasian Equity Income Fund

Inception date of fund: 1 November 2011

Benchmark & market indices used to calculate risk indicator prior to inception date: 60% S&P/ASX Industrials Index (equally weighted and 90% hedged NZD) and 40% S&P/NZX Portfolio Index.

Australasian Equity Fund

Inception date of fund: 11 April 2010

Benchmark: S&P/NZX 50 Index. (*Fund has been running for more than 5 years so no index return data used to calculate the risk indicator*).

Harbour Australasian Equity Focus Fund

Inception date of fund: 10 April 2014

Benchmark & market indices used to calculate risk indicator prior to inception date: 50% S&P/NZX50 and a 50% S&P/ASX200 (which is 50% hedged into NZ dollars).

T. Rowe Price Global Equity Growth Fund

Inception date of fund: 21 October 2015

Benchmark & market indices used to calculate risk indicator prior to inception date: MSCI All Country World Index (unhedged) in NZ Dollars.

For more information on the indices see below links:

S&P/NZX Indices: <http://us.spindices.com/regional-exposure/asia-pacific/new-zealand>

S&P/ASX Indices: <http://www.asx.com.au/products/indices.htm>

MSCI Indices: <https://www.msci.com/indexes>

Disclaimers: Our use of some market indices is subject to terms and conditions of licence agreements entered into with the index provider. These require us to provide certain disclaimers in relation to our use of those market indices. We set out these disclaimers in the Schedule at the end of this Document.

6. Distributions

We reserve the right to amend the distribution policy. As soon as practicable after the end of every distribution period, we must determine the amount of income available for distribution for that distribution period, for those Funds where income will be distributed. We can elect to capitalise some income. Your total income entitlements for a distribution period are calculated by taking the income we determine is available for distribution, dividing that figure by the number of units on issue at the end of the last day of that distribution period, and multiplying that number by the number of units you held at the end of the last day of the distribution period. The Fund may elect to deduct from your distribution an amount equal to the PIE tax (if any) paid by the Fund in respect of your holding. In such a case, unit holders may receive differing net distributions.

Currently, however, the Funds intend to reflect PIE tax by adjusting your units held and not by making deductions from distributions.

No amount of return is promised.

Depending on which service the investor is using, it may be possible for investors to have the option to have all of the distribution income paid to a nominated bank account, or reinvested in further units. Please check with your service provider regarding this.

7. Estimates for fund charges reported in the PDS

The following is in addition to the fee information provided in the PDS. The Harbour NZ Core Fixed Interest Fund, Harbour Australasian Equity Income Fund, the Harbour Australasian Equity Fund and Harbour Australasian Equity Focus Fund currently invest directly into wholesale funds managed by us (Harbour Wholesale Funds).

These Harbour Wholesale Funds also charge management fees, fund administration, supervisor and legal and audit expenses separately within each wholesale fund. The investment management fees charged by these underlying Harbour Wholesale Funds are fully rebated back to each Fund to ensure that you are only charged once for investment management fees. Currently, where the "Other fees" for the Wholesale Funds are not rebated back, these are included in the table below as "*Other fees - wholesale fund*".

The Harbour Income Fund may invest in assets directly, invest into funds managed by Harbour or invest in externally managed Funds approved by us. Any underlying Fund charges will be fully rebated to the Fund.

	Management fee (ex GST)	Other fees- retail fund (ex GST)	Other fees – wholesale fund (ex GST)	Estimated performance-based fees (explained in section 8 above)	Total annual fund charges
Harbour NZ Core Fixed Interest Fund	0.52%	0.11%	0.00%	N/A	0.63%
Harbour NZ Corporate Bond Fund	0.54%	0.09%	N/A	N/A	0.63%
Harbour Income Fund	0.50%	0.13%	N/A	N/A	0.63%
Harbour NZ Equity Advanced Beta Fund	0.41%	0.13%	N/A	N/A	0.54%
Harbour Australasian Equity Income Fund	0.79%	0.14%	0.12%	N/A	1.05%
Harbour Australasian Equity Fund	0.92%	0.11%	0.07%	0.00%	1.10%
Harbour Australasian Equity Focus Fund	0.95%	0.17%	0.14%	0.00%	1.26%
T. Rowe Price Global Equity Growth Fund	1.05%	0.17%	N/A	N/A	1.22%

Performance based fees

Harbour Australasian Equity Fund – capped performance fee

As stated in the PDS, we may be paid a performance fee for this Fund subject to the below criteria being met. A performance fee will only be paid if outperformance is achieved and the 'high-water mark' (HWM) unit price is exceeded.

We have estimated the performance fee for the next 12 months to be 0%. This is based on the fact that although the Fund's unit price is over the HWM, the Fund is behind in relative performance. Based on our expectations of equity market performance over the next 12 months we think it unlikely that the Fund will be able to make up the relative performance so do not expect the Fund to pay the performance fee.

Outperformance is achieved if the Fund's unit price return (with any performance fee accrual added back) is greater than the return of the Fund's benchmark, plus an additional hurdle of 1% pa (calculated and accrued within the daily unit price). Allowance is made for cashflows in and from the Fund when determining both the Fund's return and the benchmark return.

The Fund's benchmark until the 30 June 2016 was the Russell New Zealand Domestic Total Return Index (Net of Imputation Credits), however, FTSE/Russell stopped calculating this return index, so from 1 July 2016 onward

the Fund's benchmark is the S&P/NZX50 Index. Despite this change in benchmark, the Fund's perpetual HWM for performance fee calculation purposes has been retained.

Below is more information on how the performance based fee is calculated for the Fund.

The HWM unit price is exceeded if the Fund's unit price, on 31 December of any year, is greater than the Fund's current HWM unit price. The current HWM was the unit price on the 1st January 2014. Subsequently, the HWM is perpetual and will only ever be reset to a higher unit price if a performance fee is payable to us, in which case the new HWM will be the Fund's unit price on the day the performance fee is calculated as being payable to us.

The performance fee comprises 10% of the outperformance. The performance fee is capped at 10% of the outperformance. That is, the maximum performance fee that we can be paid is 0.90% ((10% outperformance cap less 1% benchmark hurdle) x 10% performance fee = 0.90%).

The performance fee is accrued and adjusted on a daily basis and paid in arrears, at the end of each calendar year. As the performance fee may be payable from the Harbour Australasian Equity Fund, this may affect your returns from the Fund. Please note that as the performance fee is a daily accrual within the unit price, investment performance will differ depending on the date of your investment and the unit price invested on.

Harbour Australasian Equity Focus Fund –performance based fee

As stated in the PDS, the Harbour Australasian Equity Focus Fund currently invests into the Wholesale Fund to gain exposure to Australasian equities. We may be paid a performance fee in respect of the Wholesale Fund subject to the following criteria being met. A performance fee will only be paid in the Wholesale Fund if outperformance is achieved and the HWM unit price is exceeded.

We have estimated the performance fee for the next 12 months to be 0%. This is based on the fact that although the Fund's unit price is over the HWM, the Fund is behind in relative performance. Based on our expectations of equity market performance over the next 12 months we think it unlikely that the Fund will be able to make up the relative performance so do not expect the Fund to pay the performance fee.

Below is more information on how the performance based fee is calculated. If a performance fee is payable to us by the Wholesale Fund, this will be reflected in the unit price of the Harbour Australasian Equity Focus Fund. This will affect your returns for this Fund.

Outperformance is achieved if the Wholesale Fund's unit price return (with any performance fee accrual added back) is greater than the return of the Wholesale Fund's performance fee benchmark, plus an additional hurdle of 1% pa (calculated and accrued within the daily unit price). Allowance is made for cashflows in and from the Wholesale Fund when determining both the Wholesale Fund's return and the benchmark return.

The Wholesale Fund's performance fee benchmark is a composite index of 50% of the NZX 50 Net Index (does not include imputation credits) and 50% of the ASX 200 Index (which is 50% hedged into NZ dollars).

The HWM unit price is exceeded if the Wholesale Fund's unit price, on 31 December of any year, is greater than the Wholesale Fund's current HWM unit price.

The latest month end unit price for the Wholesale Fund can be found on www.harbourasset.co.nz/unit-prices. The first HWM was the unit price on the 10 April 2014 (when the fund first launched). Subsequently, the HWM is perpetual and will only ever be reset to a higher unit price if a performance fee is payable to us, in which case the new HWM will be the Wholesale Fund's unit price on the day the performance fee is calculated as being payable to us.

The performance fee comprises 10% of the outperformance. The performance fee is capped at 10% of the outperformance. That is, the maximum performance fee that we can be paid is 0.90% ((10% outperformance cap less 1% benchmark hurdle) x 10% performance fee = 0.90%).

In the event and to the extent that the Harbour Australasian Equity Focus Fund does not invest into the Wholesale Fund, we retain the ability to charge a performance fee in respect of the Harbour Australasian Equity Focus Fund on the same basis as set out above for the Wholesale Fund.

The performance fee is accrued and adjusted on a daily basis and paid in arrears, at the end of each calendar year. Please note that as the performance fee is a daily accrual within the unit price, investment performance will differ depending on the date of your investment and the unit price invested on.

Hypothetical example (for illustrative purposes only with no allowance for cashflows to and from the Wholesale Fund over the year)

As at 31 December 2015:

The 31 December 2014 HWM was a unit price of \$1.00. The 31 December 2015 unit price was \$1.08. The Fund return for the performance period was 8%. The benchmark return for the performance period was 5%.

*A performance fee is payable as the unit price at the end of the performance period (\$1.08) is higher than the existing HWM of \$1.00 **and** the Fund return is greater than the benchmark return plus the 1% performance hurdle.*

The performance fee: 10% of [8% – (5% +1%)] (The power of compounding makes this equal 6.05%)

= 10% of (8% – 6.05%)

= 10% of 1.95%

= 0.195%

Result: a performance fee of 0.195% is payable for the period. This is in addition to the Fund's management fee. A new HWM of \$1.08 is then put in place for the next performance period.

We may with the Supervisor's prior approval (not to be unreasonably withheld), alter the basis for charging our management fees for the Funds and performance fee in respect of the Harbour Australasian Equity Fund and Harbour Australasian Equity Focus Wholesale Fund on giving written notice to you in accordance with the Trust Deed.

8. Information on other relevant policies

Further to the policies outlined in the SIPO (which can be found on the scheme register on Disclose), we regard the following policy as relevant to investors in the Harbour Investment Funds:

Conflicts of interest policy

Harbour's relationship with First NZ Capital provides a potential conflict of interest. Harbour management and Board have put in place processes to manage and monitor this conflict.

The key aspect of corporate governance policies to address potential conflicts is the appointment of independent directors, one of whom will be the Chairman. In addition the audit committee comprises a majority of independent directors. We believe that Harbour has followed best practice in setting in place appropriate corporate governance for a New Zealand based asset manager.

All transactions undertaken by Harbour with First NZ Capital staff and affiliates as a connected person are subject to daily compliance monitoring.

All proposed IPO or secondary offering allocations to Harbour must be pre-approved by the Head of Compliance in all situations where First NZ Capital or an affiliate of First NZ Capital - currently Credit Suisse - has a management or lead syndicate role in a transaction. No allocation can be made without this approval.

The Managing Director of Harbour or their delegate must inform the Head of Compliance in advance the level of any potential interest that Harbour may have in such transactions. This requirement must be followed to address conflicts of interest and integrity of allocations.

Harbour also has a separate IT network, systems and premises to First NZ Capital. Our independence has been audited by third party consultants and subject to the annual GS007 audit. We have a related party certificate signed by the Supervisor.

9. Taxation

This section briefly summarises the income tax regime as it applies to the Funds as at the date this Document was prepared. It is intended as a general guide only and you should seek your own tax advice prior to investing. Tax law changes frequently and you should not assume that this treatment will continue to apply throughout the time that you may hold units in the Funds.

In this Taxation section, references to 'resident' or 'residency' mean to 'tax resident' or 'tax residency' (and non-resident means not tax resident).

Portfolio Investment Entities

Returns to unit holders will be affected by tax laws. The Funds are multi-rate PIEs (a form of Portfolio Investment Entities referred to as PIEs) as defined in the Income Tax Act 2007. If the Funds fail to keep the multi-rate PIE status, the tax treatment will differ from that set out below (and the result may be adverse to a unit holder). The Funds have not elected to be foreign investment PIEs.

The tax regime applicable to a multi-rate PIE provides that all taxable income, losses and tax credits related to a Fund's investments must be attributed to you in proportion to your daily unit holdings in a Fund, with tax payable at your prescribed investor rate (PIR) on your proportionate share.

You must provide your IRD number, your applicable PIR and other details to us (care of your service provider) on your application form. You will be asked each year to confirm your PIR. If you do not provide a valid IRD number and/or a PIR, your attributed income will be taxed at the default rate of 28%. To determine your PIR, go to www.ird.govt.nz/toii/pir/workout/.

The tax payable by a Fund on the net income attributed to you for any given period will depend on the net income attributed to you for that period and your PIR. A Fund will cancel units (or may adjust a distribution) to account for a tax liability paid in relation to a unit holder and may issue additional units to account for any tax credit the Fund receives from Inland Revenue in relation to a unit holder.

Taxable income is attributed annually to 31 March or at any time you make a withdrawal from a Fund. Tax is paid to the Inland Revenue by our administration manager, TEL.

If you make a full withdrawal or transfer from a Fund, any tax liability on the Fund's net income attributable to your investment will be deducted from the balance withdrawn or transferred. If you withdraw a portion of your investment during the year, this results in tax being attributed to you in proportion to the amount you have withdrawn. For individuals who have provided us with the correct PIR and IRD number, the tax paid on income attributed to you by the Fund will be a final tax and you will not need to include the income attributed to you in a tax return. You must notify us if your PIR changes or if you cease to be a New Zealand resident.

If you have provided us with a lower PIR than is correct, you will be required to file a tax return and pay any resulting tax shortfall (and may be exposed to penalties and interest). If you have provided us with a PIR that is higher than your correct PIR the IRD will not refund the difference.

A trust investor with a 0%, 10.5% or 17.5% PIR must include the attributed income in its own tax return. If a trust has a 28% PIR, the Funds will pay tax at the 28% rate and that is a final tax; the income does not need to be included in the trust's tax return. Other non-individual unit holders (e.g. a company or managed investment scheme) with a PIR of 0% must account for tax on their attributed income in their own tax return.

The IRD can instruct us to apply a different PIR to the one notified by you.

You should note that both we and the Supervisor have broad powers to act at our discretion to ensure that the Funds remain eligible to be multi-rate PIEs. This includes, for example, the ability to refuse investment or to compulsorily withdraw all or part of your unit holding where continued investment may prejudice a Fund's multi-rate PIE eligibility.

If you are a retail investor investing through a PIP or custodial service, the PIP or custodial service will hold your units in the Fund. Taxable income attributed to the PIP or custodial service generally has tax deducted at 0% and the PIP or custodial service is responsible for attributing tax to investors.

Distributions and withdrawals from the Funds are not separately taxable, even where you receive an amount in excess of the original cost of the units (however, a withdrawal potentially triggers an attribution of taxable income for the current year).

Taxation legislation and rates of tax change. You should always seek independent professional tax advice that is specific to your own personal circumstances.

Taxation of share investments

Provided that the Funds are PIEs, any capital gains made by the Funds in respect to shares in New Zealand resident companies and certain Australian resident listed companies will be excluded from the calculation of taxable income. Dividends received in relation to these shares are taxable.

Shares in Australian resident listed companies that are not taxed on the dividends basis described above and most other shares in foreign companies will be taxed pursuant to the fair dividend rate (FDR) calculation method. Under FDR, the Funds will be deemed to have derived taxable income equal to 5% of the opening daily market value of the relevant shares for a tax year. Any dividends, distributions or disposal gains flowing from those shares will not be separately taxed in New Zealand under FDR.

Any losses in respect of those overseas shares to which FDR applies will not give rise to a deduction, for income tax purposes, for the Funds.

Foreign shares offering guaranteed or fixed rate returns generally will be taxed under the comparative value method (i.e. the actual gain or loss for the year). Any losses arising are deductible for tax purposes.

Taxation on income derived by the Funds

Other income of the Funds will be subject to the relevant normal tax rules.

Interest earned by the Funds, foreign exchange gains from non-New Zealand dollar denominated debt instruments and income derived from hedging contracts are taxable. The Funds are entitled to a deduction for expenses incurred in earning their income, and for any foreign exchange and hedging contract losses from non-New Zealand dollar denominated debt investments.

Foreign tax

Tax may be imposed in overseas jurisdictions in relation to overseas investments (although this may give rise to a tax credit in New Zealand).

For more information on PIEs including for non-resident investors, please visit the Inland Revenue website: <http://www.ird.govt.nz/toii/pie/>

10. Investing through service including platforms

The Harbour Investment Funds are offered through several services. These include investing with a custodial service or PIP which is a consolidated custodial account (for example Aegis or One answer, and InvestNow). When you invest through a platform, you do not hold units in the Funds directly. Instead, your units are held in the name of a custodial entity for the platform on your behalf. This means many of the legal rights attaching to those units are held by that custodial entity rather than by you, and so your ability to exercise those rights is subject to the terms and conditions agreed between you and the provider of the service. You are encouraged to familiarise yourself with those terms and conditions as set out in service provider's marketing and legal documentation.

11. Risks

Key risks have been disclosed in the PDS; these are included below as well as risks supplemental to the PDS. You should carefully consider the following risk factors which may adversely affect investment returns and your ability to recover money invested in a Fund.

The main risks that you face are that you may not receive the returns that you expect, that the capital value of your investment may end up less than originally invested (or may be lost in full), or that you may be unable to get your money back or fully realise your investment in the Fund when you need it. We believe that the circumstances which produce these risks can be classified into three main areas:

1 Manager specific risks

2 Fund specific risks

3 General risks

We outline these in further detail below:

1 Manager specific risks

Manager specific risk relates to us as a company and the risks around how we manage and operate our business, including the making of investment decisions. These risks which, are outlined below, will differ from other fund managers.

Company specific risk: Your investment in a Fund may be affected by unexpected changes in our operations, ownership structure, business environment or if we become insolvent.

Key personnel: The performance of investments will depend to some extent on the quality of management of a Fund and its assets. Our ability to provide investment management services for a Fund is linked to key professionals whose departure could negatively impact on the performance of the Fund.

Service provider risk: You could be adversely affected if any of the parties involved in the operation of a Fund, including the Supervisor, us, or the underlying administration managers and/or auditors fail to perform their obligations.

2 Fund specific risks

Fund specific risk relates to each Fund's investment style (i.e. how we manage each Fund) and the risks the Funds face due to the underlying securities that each Fund invests in. As a result, each Fund has a different risk profile.

Investment manager risk: How we choose to allocate each Fund's investments between investment sectors and individual investments from time to time (and the investment decisions made by T. Rowe Price) will affect

that Fund's returns, along with the performance of the businesses underlying the investments. In particular, our investment style may result in our returns differing from any share market index and from competing investments.

Interest rate risk: The market value of the securities in the Harbour NZ Core Fixed Interest Fund, the Harbour NZ Corporate Bond Fund and the Harbour Income Fund can change due to changes in interest rates. The market value of fixed interest securities can fluctuate with relatively small changes in interest rates. This sensitivity depends on the starting level of interest rates, the maturity date of the security and the level of coupon or dividend paid.

Currency risk: As a portion of the underlying investments of the Harbour Australasian Equity Fund, the Harbour Australasian Equity Income Fund, the Harbour Australasian Equity Focus Fund, Harbour Income Fund, Harbour NZ Corporate Bond Fund and the Harbour NZ Core Fixed Interest Fund may be invested in Australia, their returns may be affected by changes in the rate of exchange between the Australian and New Zealand dollar. As a portion of the Income Fund, Harbour NZ Corporate Bond Fund and the Harbour NZ Core Fixed Interest Fund may be invested in other foreign currencies, their returns may be affected by changes in the value of the New Zealand dollar.

The T. Rowe Price Global Equity Growth Fund invests in securities denominated in currencies other than New Zealand dollars. If these currencies change in value relative to the New Zealand dollar, the value of the investment can change. The Fund will not typically hedge currency risk to New Zealand dollars.

Concentration risk: For the Australasian Equity Focus Fund, this Fund has a concentrated portfolio, meaning we will have large positions in companies that our investment team rate highly. This Fund is not as diversified as our other Funds on a number of holdings basis. This introduces a higher level of risk to the Fund.

Derivative risk: Because we may use currency hedging arrangements and other derivative instruments to manage the Harbour Australasian Equity Fund, the Harbour Australasian Equity Income Fund, the Harbour Australasian Equity Focus Fund, Harbour NZ Corporate Bond Fund, Harbour Income Fund and the Harbour NZ Core Fixed Interest Fund, the investment movements may be more volatile than if that Fund invested solely in domestic securities. As the Harbour NZ Core Fixed Interest Fund may make marginal allocations in the United States and Australian rate markets, investment movements may be more volatile than if that Fund invested solely in domestic fixed interest. As we may use interest rate and credit derivative instruments to manage the Harbour NZ Corporate Bond Fund and the Harbour NZ Core Fixed Interest Fund, the investment movements may be more volatile than if either Fund invested solely in fixed interest securities.

Counterparty and default risk: A counterparty to a contract may fail to meet their obligations under it, causing loss to any of the Funds. This potentially arises with various securities including derivatives and fixed interest.

Liquidity risk: Some investments may not be readily realisable and converted into cash with little or no loss of capital and minimum delay, because of either inadequate market depth for the trading of the investment in the secondary market or disruptions in the market place for the investment. Securities of small market capitalisation companies in particular may, from time to time and especially in falling markets, become less liquid and the investment may not be able to be realised. For the Income Fund some sectors of eligible investment are in loans and securities that exhibit poor liquidity particularly in adverse market environments. These include investments in parts of the corporate bond market, notably sub-investment grade bonds and loans. The Harbour NZ Corporate Bond Fund and Harbour NZ Core Fixed Interest Fund also have the ability to hold unrated bonds of investment grade quality. There may be times when we may not easily change exposure levels if the Fund size changes and in extreme circumstances may constrain the ability of investors to exit their full holdings of units.

PIE Status risk: If PIE status is lost, a Fund would be taxed as a company rather than under the multi-rate PIE regime (and you would be taxed on any distributions or redemptions accordingly).

Inflation risk: Inflation risk may impact on real returns. Inflation is the term used to describe a rise of average prices throughout the economy. Put simply, inflation refers to the increased cost of living. There is a risk that if

you receive returns from your investment in the Funds that are less than the rate of inflation, you may not be able to buy as many goods and services with your money as when you invested in the Funds.

Risk of not meeting investment objectives: There is no guarantee that any of the Funds will execute or achieve their investment objectives, and such objectives should not be interpreted as a guarantee or assurance of returns. A failure to meet investment objectives would affect each Fund.

Securities lending risks: There are a number of possible risks associated with securities lending due to the ability of the NZ Equity Advanced Beta Fund to implement a securities lending programme. These are outlined below:

- **Borrower credit risk and settlement risk:** There is a risk that a borrower of securities fails to deliver equivalent securities on termination of a loan. For example, it may become insolvent and therefore unable to acquire the relevant securities for delivery. A delay in, or failure in respect of, redelivery of securities may cause the Fund to incur a loss of revenue and/or securities as a result. In any stock lending arrangement the borrower of stock would be required to provide collateral of a high quality and liquidity. The collateral would be used to purchase replacement securities, should the borrower fail to deliver securities on the termination of the loan.
- **Legal risk:** There is a risk that the contract relating to the lending will not be legally enforceable or documented correctly, resulting (for example) in an inability to enforce an obligation to retransfer securities. This risk can be mitigated by the use of a standard form contract based on industry standards. In order to limit a Fund's exposure to the risk that may arise as a result of securities lending, we have agreed with the Supervisor that at the time and immediately after lending any securities in a Fund no more than 20% of the value of a Fund or 20% of the aggregate value of any class of security within a Fund may be lent. Securities may not be lent if, as a result, either of those limits is breached.

Operational risk: The risk of errors in record keeping, accounting, unit pricing or custodial errors by the external registry and custodial service provider.

Market risk: Investment returns will be affected by the performance of the investments chosen for that Fund, which may be affected by the performance of the investment markets generally (market risk). Market risk includes movements in the general price level, demand and supply in the market in which the relevant investments are made, the sector(s) in which the investments are made, and economic and regulatory conditions, including market sentiment, inflation, interest rates, foreign exchange rates, employment, political events, environmental and technological issues, and consumer demand internationally and in New Zealand and Australia.

Limited performance track record: The Harbour NZ Corporate Bond Fund was established on 22 January 2009, the Harbour Australasian Equity Fund was established on 25 March 2010, the Harbour NZ Core Fixed Interest Fund was established on 3 May 2011, the Harbour Australasian Equity Income Fund was established on 13 September 2011, the Harbour Australasian Equity Focus Fund was established on 5 March 2014, the Harbour NZ Equity Advanced Beta Fund was established on 17 November 2014, the Harbour Income Fund was established on 14 September 2015, and the T. Rowe Price Global Equity Growth Fund was amended 14 September 2015. Accordingly, there is limited historical performance information available for these eight Funds.

The risks that apply to the Funds are not exhaustive.

Because of the risks set out, it is reasonably foreseeable that you may receive back less than you invested into a Fund. In any event, you will not be required to pay more money than the amount you invest into a Fund.

How we manage (mitigate) risks

The risks you face as an investor into managed funds will vary from Fund to Fund, depending on the investment objective and underlying investments of each Fund. Generally, to earn a higher return in the long term, an investor is required to accept a higher degree of risk to generate that desired return.

You and your financial adviser can determine the most appropriate Fund or mix of Funds to help achieve your investment objectives, with respect to the risk factors mentioned in the previous section.

In managing your investment, we are aware of these risks and believe the following factors can help manage some of these potential risks you face as a unit holder in a Fund.

A well-resourced and experienced team

We offer a team of experienced and proven investment professionals that have extensive experience in managing money in global and Australasian markets. The senior members of the equity team worked together for over 10 years at a global investment management firm prior to establishing Harbour. Our portfolio managers, who invest and manage the money, have an average of over 20 year's investment experience each. This individual and collective experience has navigated client portfolios through changing economic and market conditions. This enables us to focus on client outcomes and provide you with competitive long term returns.

Sound investment philosophy

Our investment philosophy is focused on consistency – in combining fundamental analysis with the skill of experienced people.

Consistent investment process

The years of experience and lessons learned over many market cycles has helped us craft a robust and disciplined investment process for equities. Our combination of quantitative macro-economic and fundamental analysis across both equity and fixed interest markets is dedicated to producing superior investment results for you. We manage the investment strategy within clearly defined investment parameters to provide you with transparency of how your investment portfolio is managed.

Carefully selected external manager for global equities - T. Rowe Price

After a comprehensive due diligence process, Harbour selected T. Rowe Price to undertake portfolio management of the T. Rowe Price Global Equity Growth Fund based on Harbour's assessment of T. Rowe Price's thorough process, extensive research capabilities and skilled and collaborative team.

Governance & controls

The Harbour business operates within a framework of strong governance that is overseen by an experienced Board which includes two independent directors. This oversight, along with what we believe is a world leading back office administration and compliance system, helps mitigate company specific risks and investment operation risks.

Further information on our corporate governance and controls can be found on our website at www.harbourasset.co.nz.

12. Financial statements and auditor's report

Financial statements for the Funds are available on the scheme register on the Disclose website www.business.govt.nz/disclose.

The Funds all have 30 June balance dates. The Funds' financial statements for the most recent accounting period will be uploaded to the scheme register by 31 December that year.

The Funds' financial statements are audited by a qualified auditor, currently Pricewaterhouse Coopers. The auditor's report on the financial statements will accompany the financial statements uploaded to the scheme register each year.

13. No Guarantee

No person, including Harbour, First NZ Capital Group Limited, or TEL guarantees the repayment of units in the Harbour Investment Funds or the payment of any earnings or returns on any unit in the Funds.

14. Material contracts

Below is a summary of the contracts we believe are relevant in relation to the Harbour Investment Funds.

Outsourced Fund Administration Agreement

Harbour has employed the services of TEL to provide specialist account administration for third party mandates, and custody and administration services for the Harbour Wholesale Funds, and the Harbour Investment Funds.

The services that TEL provides to Harbour include:

- An independent accounting system where trades, positions and corporate actions are recorded. Harbour uses the portfolio valuations as a basis for managing the portfolios.
- Liaising with custodians to ensure the settlement of trades and where there are problems ensuring they are resolved.
- Daily and monthly reconciliation of third party custodian records to the TEL accounting records.
- Act as a central point for the advice and processing of corporate actions.
- Monthly reporting of performance and portfolio valuations and other required reports.
- Registry, unit pricing and custody of assets for the range of Harbour Investment Funds and Harbour Wholesale Funds.

TEL provides a six monthly Internal Controls Report, which includes an Independent Assurance Report in accordance with International Standard on Assurance Engagements (New Zealand) 3402.

Trust Deed

The Funds are constituted within a registered scheme called the "Harbour Investment Funds" which is governed by the Harbour Asset Management Limited Trust Deed restated on 21 September 2016.

The Trust Deed governs the Funds. The Trust Deed, together with the supplemental conditions of establishment, are available on the Disclose Register.

15. Deferral and suspension of withdrawals

If a withdrawal request, or a series of withdrawal requests, in respect of the Funds are received within a period of three months that relate to more in total than 2.5% of the number of units on issue at the time of the request or the last request, and we consider it is in the general interests of all unit holders in the Funds to defer immediate withdrawal of the total units requested in accordance with the Trust Deed, we may defer immediate withdrawal of the total units requested, and withdraw those units by instalments over a period determined by us or in total at the expiration of a period determined by us. There is no limit to the period we may determine.

Where such requests, within a three month period, relate to more than 10% of the number of units on issue in the Funds at the time of request or last request, we may, on notifying the Supervisor, suspend the right of unit holders in the Funds to make withdrawal requests.

We may also suspend withdrawal requests where we determine the withdrawal is not practicable, would or may be prejudicial to the general interests of unit holders in the Funds, or is not desirable for the protection of the Funds (for example, if it would threaten the Funds' status as a PIE). There is no limit to the suspension period the Supervisor may agree to.

Disclaimers

MSCI indices

For the MSCI indices (including the MSCI World Index) the relevant licence agreement requires the use of the following disclaimer:

Source: MSCI. The MSCI data is comprised of a custom index calculated by MSCI for, and as requested by, Harbour Asset Management Limited. The MSCI data is for internal use only and may not be redistributed or used in connection with creation or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the data (The MSCI Parties) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties or originality, accuracy, completeness or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liabilities for any direct, indirect, special, punitive, consequential or other damages (including lost profits) even if notified of the possibility of such damages.

S&P Dow Jones Indices LLC disclaimer

The S&P/ NZX Portfolio Index, S&P/ NZX 50 Index, S&P/NZX A-Grade Corporate Bond Index, S&P/NZX NZ Government Bond Index and NZX New Zealand Gross Returns 90 Day Bank Bills index(es) ("Index") is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Harbour Asset Management. Copyright © 2015 S&P Dow Jones Indices LLC, a subsidiary of McGraw Hill Financial Inc., and/or its affiliates. All rights reserved. Redistribution, reproduction and/or photocopying in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. For more information on any of S&P Dow Jones Indices LLC's indices please visit www.spdji.com. S&P® is a registered trademark of Standard & Poor's Financial Services LLC and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC. Neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors make any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors shall have any liability for any errors, omissions, or interruptions of any index or the data included therein.