

**HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS)  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

Unit Trust  
Register No.  
2479294  
2553702  
2599503  
2615478

Including the following Funds:  
**Harbour Australasian Equity Fund**  
**Harbour Australasian Equity Income Fund**  
**Harbour Australasian Equity Focus Fund**  
**Harbour New Zealand Equity Advanced Beta Fund**

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**HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS)  
STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	Harbour Australasian Equity Fund		Harbour Australasian Equity Income Fund		Harbour Australasian Focus Fund		Harbour New Zealand Equity Advanced Beta Fund	
		2016 12 months \$	2015 12 months \$	2016 12 months \$	2015 12 months \$	2016 12 months \$	2015 12 months \$	2016 12 months \$	2015 8 months \$
<b>Revenue</b>									
Interest income		6,958	8,930	1,935	2,461	32	3	8,546	7,371
Dividend and distribution income		-	-	2,120,494	2,035,696	-	-	1,186,346	330,157
Other income		-	-	-	-	-	-	1,135	-
Net gains/(losses) on financial assets at fair value through profit or loss	5	20,987,691	7,675,836	3,028,663	4,784,132	648,064	279,813	2,988,023	(109,532)
Management fee rebate income	10	690,537	543,618	264,414	240,441	41,154	25,348	-	-
<b>Total Revenue</b>		<b>21,685,186</b>	<b>8,228,384</b>	<b>5,415,506</b>	<b>7,062,730</b>	<b>689,250</b>	<b>305,164</b>	<b>4,184,050</b>	<b>227,996</b>
<b>Expenses</b>									
Management fees	10	1,193,198	939,841	458,302	416,797	60,363	37,176	132,284	29,762
Other expenses	4	33,316	20,088	14,234	8,061	(643)	1,032	9,526	3,221
Brokerage fees		-	-	-	-	-	-	72,413	26,442
Recovery of fees paid to the Auditor	10	7,692	9,517	5,027	8,225	3,643	7,091	4,988	4,047
<b>Total Expenses</b>		<b>1,234,206</b>	<b>969,446</b>	<b>477,563</b>	<b>433,083</b>	<b>63,363</b>	<b>45,299</b>	<b>219,211</b>	<b>63,472</b>
<b>Net Profit Attributable to Unit Holders</b>		<b>20,450,980</b>	<b>7,258,938</b>	<b>4,937,943</b>	<b>6,629,647</b>	<b>625,887</b>	<b>259,865</b>	<b>3,964,839</b>	<b>164,524</b>
<b>Total Comprehensive income attributable to unit holders</b>		<b>20,450,980</b>	<b>7,258,938</b>	<b>4,937,943</b>	<b>6,629,647</b>	<b>625,887</b>	<b>259,865</b>	<b>3,964,839</b>	<b>164,524</b>

The notes to the financial statements set out on pages 6 to 16 should be read in conjunction with these statements of comprehensive income.

**HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS)  
STATEMENTS OF CHANGES IN UNIT HOLDERS' FUNDS  
FOR THE YEAR ENDED 30 JUNE 2016**

Note	Harbour Australasian Equity Fund		Harbour Australasian Equity Income Fund		Harbour Australasian Focus Fund		Harbour New Zealand Equity Advanced Beta Fund	
	2016 12 months \$	2015 12 months \$	2016 12 months \$	2015 12 months \$	2016 12 months \$	2015 12 months \$	2016 12 months \$	2015 8 months \$
<b>Unit Holders' Funds</b>								
Unit Holders' Funds at the beginning of the year	96,358,807	81,001,469	46,924,319	39,302,216	3,962,145	2,594,989	14,665,107	-
Total comprehensive income attributable to unit holders	20,450,980	7,258,938	4,937,943	6,629,647	625,887	259,865	3,964,839	164,524
Contributions during the year	39,987,459	32,790,021	14,387,617	15,965,016	4,113,775	1,279,961	30,832,057	16,107,383
Withdrawals during the year	(22,746,588)	(24,687,833)	(13,849,550)	(12,933,948)	(730,268)	(171,062)	(161,944)	(1,605,639)
Distributions to unit holders	-	-	(2,120,494)	(2,035,696)	-	-	-	-
Unit holder attributed taxation	(4,793)	(3,788)	1,005	(2,916)	(102)	(1,608)	-	(1,161)
<b>Unit Holders' Funds at the end of the year</b>	<b>134,045,865</b>	<b>96,358,807</b>	<b>50,280,840</b>	<b>46,924,319</b>	<b>7,971,437</b>	<b>3,962,145</b>	<b>49,300,059</b>	<b>14,665,107</b>
<b>Units on Issue</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Units on issue at the beginning of the year	57,219,528	52,104,468	29,781,291	27,709,077	3,736,967	2,649,577	13,913,036	-
Contributions during the year	21,893,839	20,021,472	8,921,676	10,326,068	3,352,248	1,252,756	26,231,174	15,413,036
Withdrawals during the year	(12,297,060)	(14,906,412)	(8,576,583)	(8,253,854)	(613,483)	(165,366)	(131,962)	(1,500,000)
<b>Units on issue at the end of the year</b>	<b>12</b>	<b>57,219,528</b>	<b>30,126,384</b>	<b>29,781,291</b>	<b>6,475,732</b>	<b>3,736,967</b>	<b>40,012,248</b>	<b>13,913,036</b>

The notes to the financial statements set out on pages 6 to 16 should be read in conjunction with these statements of changes in unit holders' funds.



**HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS)  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	Harbour Australasian Equity Fund		Harbour Australasian Equity Income Fund		Harbour Australasian Focus Fund		Harbour New Zealand Equity Advanced Beta Fund	
		2016 12 months	2015 12 months	2016 12 months	2015 12 months	2016 12 months	2015 12 months	2016 12 months	2015 8 months
<b>Cash Flows (used in)/from Operating Activities</b>									
Cash was provided from:									
Interest income		6,964	8,929	1,935	2,572	32	3	8,547	7,370
Dividend income		-	-	-	-	-	-	1,142,004	306,112
Sale of investments		9,832,063	9,892,294	9,940,822	7,036,833	632,225	179,507	27,529,599	7,720,529
Other income		638,535	515,676	260,736	226,927	32,950	19,551	583	-
Cash was applied to:									
Payment of expenses		(1,140,436)	(915,900)	(470,424)	(406,709)	(57,628)	(34,052)	(194,078)	(41,501)
Purchase of investments		(24,941,130)	(17,420,889)	(8,211,858)	(7,934,987)	(3,991,082)	(1,257,237)	(44,799,393)	(18,589,105)
<b>Net cash (used in)/from operating activities</b>	9	<b>(15,604,004)</b>	<b>(7,919,890)</b>	<b>1,521,211</b>	<b>(1,075,364)</b>	<b>(3,383,503)</b>	<b>(1,092,228)</b>	<b>(16,312,738)</b>	<b>(10,596,595)</b>
<b>Cash Flows from/(used in) Financing Activities</b>									
Cash was provided from:									
Contributions from unit holders		38,044,334	32,631,723	13,121,501	15,785,672	4,099,191	1,278,811	16,925,136	12,234,330
Cash was applied to:									
Withdrawals by unit holders		(22,434,005)	(24,703,011)	(12,725,790)	(12,852,987)	(713,758)	(186,503)	(31,631)	(1,605,639)
Distributions to unit holders	12	-	-	(1,916,100)	(1,854,886)	-	-	-	-
Unit holder attributed taxation	13	(10,503)	(30)	(4,516)	297	(2,260)	(13)	-	(1,161)
<b>Net cash from/(used in) financing activities</b>		<b>15,599,826</b>	<b>7,928,682</b>	<b>(1,524,905)</b>	<b>1,078,096</b>	<b>3,383,173</b>	<b>1,092,295</b>	<b>16,893,505</b>	<b>10,627,530</b>
<b>Net (decrease)/increase in Cash and Cash Equivalents</b>		<b>(4,178)</b>	<b>8,792</b>	<b>(3,694)</b>	<b>2,732</b>	<b>(330)</b>	<b>67</b>	<b>580,767</b>	<b>30,935</b>
Opening cash brought forward		256,492	247,700	71,596	68,864	68	1	30,935	-
<b>Cash and cash equivalents at the end of the year</b>		<b>252,314</b>	<b>256,492</b>	<b>67,902</b>	<b>71,596</b>	<b>(262)</b>	<b>68</b>	<b>611,702</b>	<b>30,935</b>

The notes to the financial statements set out on pages 6 to 16 should be read in conjunction with these statements of cash flows.

## HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS) NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 1. General Information

The reporting entities are the Harbour Australasian Equity Fund (Retail Unit Trust), the Harbour Australasian Equity Income Fund (Retail Unit Trust), the Harbour Australasian Equity Focus Fund (Retail Unit Trust) and the Harbour New Zealand Equity Advanced Beta Fund (Retail Unit Trust) ("the Funds") which are unit trusts registered under the Unit Trusts Act 1960. The Funds are registered in New Zealand. The Funds' registered office is Level 16, 171 Featherston Street, Wellington.

The Funds were established by a Deed of Establishment dated 25 March 2010 (Harbour Australasian Equity Fund), 13 September 2011 (Harbour Australasian Equity Income Fund), 5 March 2014 (Harbour Australasian Equity Focus Fund) and 17 November 2014 (Harbour New Zealand Equity Advanced Beta Fund). The Funds are governed by a Master Trust Deed dated 25 March 2010 between Harbour Asset Management Limited (the "Manager") and Trustees Executors Limited (the "Trustee"). The Funds are issuers as defined by the Financial Markets Conduct ("FMC") Act 2013.

The principal activity of the Funds is described below:

- (a) The Harbour Australasian Equity Fund (Retail Unit Trust) ("Harbour Equity Retail Fund"), invests primarily in the Harbour Australasian Equity Fund (Wholesale Unit Trust) ("Harbour Equity Wholesale Fund"). The principal activity of the Harbour Wholesale Fund is investment predominantly in the Australasian equity markets.
- (b) The Harbour Australasian Equity Income Fund (Retail Unit Trust) ("Harbour Equity Income Retail Fund"), invests primarily in the Harbour Australasian Equity Income Fund (Wholesale Unit Trust) ("Harbour Equity Income Wholesale Fund"). The principal activity of the Harbour Income Wholesale Fund is investment predominantly in the Australasian equity market as well as in cash and fixed income securities.
- (c) The Harbour Australasian Equity Focus Fund (Retail Unit Trust) ("Harbour Equity Focus Retail Fund"), invests primarily in the Harbour Australasian Equity Focus Fund (Wholesale Unit Trust) ("Harbour Equity Focus Wholesale Fund"). The principal activity of the Harbour Equity Focus Wholesale Fund is investment predominantly in the Australasian equity market and cash.
- (d) The Harbour New Zealand Equity Advanced Beta Fund (Retail Unit Trust) ("Harbour New Zealand Equity Advanced Beta Fund"), invests predominantly in the New Zealand equity market.

The financial statements of the Funds cover the year ended 30 June 2016 and comparatives for the year ended 30 June 2015, except for the Harbour New Zealand Equity Advanced Beta Fund which covers the year ended 30 June 2016 and comparatives for the 8 month period to 30 June 2015.

### 2. Summary of Accounting Policies

#### i Statutory Base

The financial statements have been prepared in accordance with the requirements of the Trust Deed and the Financial Markets Conduct ("FMC") Act 2013.

#### ii Basis of Preparation

The Manager and the Trustee are FMC reporting entities. Consequently, even though the Funds are not yet registered at balance date, they have adopted the financial reporting provisions of the FMC Act 2013. This change in legislation has not had a material impact on the Funds' financial statements.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand and other legislative requirements as appropriate for for-profit entities. The Funds are Tier 1 entities and, as such, the financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other New Zealand accounting standards and authoritative notices to entities that apply NZ IFRS. These financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of financial instruments at fair value through profit or loss. The methods used to measure fair values are discussed further below. The accrual basis of accounting has been applied, as has the going concern assumption.

There are no new or amended standards for the year ended 30 June 2016 that have had a material impact on the financial statements.

The following new or amended standard relevant to the Funds is not yet effective and has not yet been applied in preparing the financial statements:

*NZ IFRS 9: Financial Instruments* is applicable to annual reporting periods beginning on or after 1 January 2018. The Funds plan to adopt this standard for the financial year ending 30 June 2019. *NZ IFRS 9* was issued in September 2014 as a complete version of the standard and replaces the existing standard *NZ IAS 39: Financial Instruments Recognition and Measurement* that relate to the classification and measurement of financial instruments, hedge accounting and impairment. *NZ IFRS 9* requires financial assets to be classified into three measurement categories: fair value through profit or loss, fair value through other comprehensive income or amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the *NZ IAS 39* requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The adoption of this standard may result in additional or amended disclosures and its impact on the Funds' reported result or financial position has not yet been assessed.

No other standards, amendments or interpretations that have been issued but are not yet effective are expected to materially impact the Funds' financial statements.

## HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS) NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 2. Summary of Accounting Policies (continued)

#### iii Investment entity

The Funds (with the exception of the Harbour New Zealand Advanced Beta Fund), indirectly hold multiple investments through their respective Harbour wholesale funds. The Funds have been deemed to meet the definition of an investment entity per NZ IFRS 10 as the following conditions exist:

- (a) The Funds have obtained funds for the purpose of providing investors with investment management services;
- (b) The Funds' business purpose, which is communicated directly to investors, is investing solely for returns from capital appreciation or investment income;
- (c) The performance of investments made through the respective Harbour wholesale funds is measured and evaluated on a fair value basis.

The Funds also displays three of the four typical characteristics that are associated with an investment entity:

- The Funds have more than one investor;
- The Funds have investors that are not related parties; and
- Ownership interests in the Funds are represented by units in the Funds.

Although the Funds do not meet all of the typical characteristics of an investment entity (namely the Funds do not have multiple investments (with the exception of the Harbour New Zealand Advanced Beta Fund), the Manager believes they are investment entities because the Harbour wholesale funds were formed to, *inter alia*, provide investment management services to the Funds and the Funds effectively have exposure to multiple investments through their respective Harbour wholesale funds.

#### iv Functional and Presentation Currency

These financial statements are presented in New Zealand dollars (\$), which is the Funds' functional currency. All financial information presented has been rounded to the nearest dollar.

#### v Financial Instruments at Fair Value Through Profit or Loss

Financial assets and liabilities held at fair value through profit or loss comprise New Zealand unlisted Portfolio Investment Entities ("PIE") funds and New Zealand equities.

##### (a) Classification

*Designated financial assets at fair value through profit or loss*

The Funds classify their investments in unlisted PIEs and New Zealand equities as designated financial assets at fair value through profit or loss upon initial recognition. The financial assets can be classified as such, as the Funds manage their investments and makes purchase and sale decisions based on their fair value and in accordance with the investment strategy. Purchases and sales of investments are recognised on the trade date, the date on which the Funds commit to purchase or sell the investment.

*Held for trading financial assets and liabilities at fair value through profit or loss*

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are categorised as held for trading.

##### (b) Recognition and subsequent measurement

Financial assets at fair value through profit or loss are initially recognised at fair value. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in fair value are recognised in the statements of comprehensive income when they arise. Interest and dividend income are separately recognised in the statements of comprehensive income.

##### (c) Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date in the principal or, in its absence, the most advantageous market to which the Funds' had access at that date. The fair value of a liability reflects its non-performance risk.

*Financial assets and liabilities held at fair value through profit or loss*

Financial assets and liabilities held at fair value through profit or loss include financial instruments designated at fair value through profit or loss upon initial recognition. They are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs relating to financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

*Fair value in an active market*

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the balance date without any deduction for estimated future selling costs. Financial assets and liabilities are priced at last sale prices. Where the last sale price falls outside of the bid-ask spread for a particular stock, bid price will be used to value the investment.

*Fair value of investments in managed funds*

The fair value of investments in managed funds is determined using the last available redemption unit price for those funds at the balance date. The Manager of the Fund may make adjustments based on considerations such as the liquidity of the underlying investments and any restrictions on redemptions.

##### (d) Derecognition

Financial assets and liabilities are derecognised upon maturity or disposal of the asset. Any gain or loss arising on derecognition of the asset or liability is recognised in the statements of comprehensive income in the year the item is derecognised. Gains or losses are calculated as the difference between the disposal proceeds and the carrying amount of the item.

#### vi Fair Value Hierarchy

The carrying amounts of the Funds financial instruments at fair value through profit or loss at balance date are their fair values. Fair value measurements are categorised into a three level hierarchy that reflects the significance of the inputs used in making the measurements. The Funds recognise transfers between levels of the fair value hierarchy as at the end of the financial reporting period during which the change has occurred.

## HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS) NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 2. Summary of Accounting Policies (continued)

#### vi Fair Value Hierarchy (continued)

*Level one - fair value in an active market*

The fair value of financial assets traded in active markets for the same instruments based on their quoted market prices at balance date without any deduction for estimated future selling costs.

*Level two - fair value in an inactive market using valuation techniques and observable market data*

The fair value of financial assets that are not traded in an active market is determined using valuation techniques for which all significant inputs are based on observable market data.

The investments by the Funds in their respective Harbour wholesale funds is subject to the terms and conditions of each respective Harbour wholesale fund's Trust Deed. The investments in the Harbour wholesale funds are valued at fair value which are based on the latest available redemption prices of the units in each respective Harbour wholesale fund. The Manager reviews the details of the reported information obtained from each of the Harbour wholesale funds and considers:

- (a) the liquidity of the Fund's holding in that Harbour wholesale fund or its underlying investments;
- (b) the value date of the net asset value ("NAV") provided; and
- (c) any restrictions on redemptions

*Level three - fair value in an inactive or unquoted market using valuation techniques without observable market data*

The fair value of financial assets that are not traded in an active market is determined using valuation techniques for which any significant input is not based on observable market data.

#### vii Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Funds' loans and receivables comprise 'trade and other receivables' and 'cash at bank' in the statements of financial position. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. These assets are all held with high quality counterparties and are regularly reviewed for impairment. Sales of securities and investments which are unsettled at balance date are included in receivables.

#### viii Revenue Recognition

- (a) Interest income is recognised as the interest accrues using the effective interest rate method. Interest income is earned on short term deposits and bank balances.
- (b) Dividend and distribution income is recognised in the statements of comprehensive income when the Funds' right to receive payment is established.
- (c) Gains or losses on financial assets at fair value through profit or loss are recognised in the statements of comprehensive income as disclosed in note 2(v) above.
- (d) Management fee rebate income is accrued on a daily basis and recognised in the statement of comprehensive income.
- (e) Foreign exchange gains and losses on cash and cash equivalents, trade and other receivables, and trade and other payables are recognised in the statements of comprehensive income as disclosed in Note 2(xviii) of the statement of accounting policies.
- (f) Other income is recognised in the statements of comprehensive income when the Funds' right to receive payment is established.

#### ix Expenses

Expenses comprise management fees, performance fees, trustee fees, custody and accounting fees, registry fees, legal fees, tax consultancy fees, brokerage fees, bank fees and other sundry expenses. Management and other fees are accrued for on a daily basis on the Funds' gross asset value ("GAV"). Any performance fee is accrued and adjusted on a daily basis. Brokerage fees are incurred to acquire and dispose of assets at fair value through profit or loss. Brokerage fees are immediately recognised in the statements of comprehensive income as an expense. All other fees are paid by the Manager although such costs can be charged back to the Funds.

GAV means, in respect of the Funds, the aggregate value of the investments and other assets, less any liabilities, of the Funds, as determined by the Manager in accordance with the respective Trust Deeds, but before deducting any liabilities in respect of any charges or expenses as set out in those Trust Deeds.

#### x Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term deposits (with original maturities of 90 days or less) and are measured initially at fair value. Subsequent to initial recognition, all cash and cash equivalents are measured at amortised cost.

#### xi Taxation

The Funds are Portfolio Investment Entities ("PIEs"). Under the PIE regime income is effectively taxed in the hands of the unit holders and therefore the Funds have no tax expense. Accordingly, no income tax expense is recognised in the statements of comprehensive income.

Under the PIE regime, the Manager attributes the taxable income of the Funds to unit holders in accordance with the proportion of their interest in the overall Funds. The income attributed to each unit holder is taxed at the unit holder's prescribed investor rate ("PIR") which is currently capped at 28%. The Manager accounts for tax on behalf of those unit holders that have a PIR of greater than zero, and undertakes any necessary adjustments to the unit holders' interests in the Funds to reflect that the Funds pay tax at varying rates on behalf of unit holders. Any PIE tax payable/refundable on full withdrawals is paid/received by the Manager on behalf of unit holders and deducted from or added to the withdrawal proceeds paid. Units are cancelled/issued to the value of the tax paid/refunded upon determination of the unit holders' annual PIE tax liabilities/assets at 31 March each year.

The tax attributable to unit holders is calculated on the basis of the tax laws enacted or substantively enacted at balance date. Positions taken in attributing taxable income to unit holders, with respect to situations in which applicable tax regulations are subject to interpretation, are evaluated by the Manager as required.

#### xii Goods and Services Tax (GST)

The Funds are not registered for GST and consequently all components of the financial statements are stated inclusive of GST where applicable.



## HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS) NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 2. Summary of Accounting Policies (continued)

#### xiii Trade and Other Payables

Trade and other payables include liabilities and accrued expenses owed by the Funds that are unpaid at balance date, and normally settled within two business days. Purchases of investments that are unsettled at reporting date are included in trade and other payables. Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost using the effective interest method.

#### xiv Statements of Cash Flows

Definitions of the terms used in the statements of cash flows are:

- (a) Operating activities comprise all transactions and other events that are not financing activities and includes purchases and sales of investments.
- (b) Financing activities are those activities that result in changes in the size and composition of unit holders' funds. This includes elements of unit holders' funds not falling within the definition of cash. Distributions paid in relation to unit holders' funds are included in financing activities.

Contributions and withdrawals within the statements of changes in unit holders' funds include transfers between unit holders, however, these transfers do not result in a cash flow. Consequently, transfers between unit holders have been excluded from the statement of cash flows.

#### xv Distributions

In accordance with the Funds' Trust Deeds, the Manager has full discretion as to whether to distribute any net income of the Funds. Income that is not distributed is invested as part of the assets of the Funds or may also be used to make later distributions to unit holders.

#### xvi Applications and Redemptions

The application and redemption prices are determined as the net asset value of the Funds divided by the number of units on issue on the date of the contribution or withdrawal.

#### xvii Unit Holders' Funds

Net assets attributable to unit holders meets the definition of an equity instrument as:

- (a) it entitles the unit holders of each Fund to a pro rata share of the net assets of the respective Fund in the event of liquidation;
- (b) it is in the class of instruments that is subordinate to all other classes of instruments;
- (c) all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- (d) apart from the contractual obligation of the issuer to redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability;
- (e) the total expected cash flows attributable to the instrument over its life is based substantially on the profit or loss, the change in the recognised net assets or the change in fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.

The Funds issue redeemable units which are redeemable at the holder's option and are classified as equity.

#### xviii Foreign Currencies

Transactions denominated in foreign currencies are recognised at the exchange rates at the date of the transactions. Monetary assets and liabilities as at balance date denominated in foreign currencies are translated at the foreign currency exchange rates at that date. Realised and unrealised exchange gains and losses during the financial year are recognised in the statements of comprehensive income. Foreign exchange gains and losses on cash at bank and outstanding settlements are included in 'Foreign exchange (losses)/gains' in the statements of comprehensive income.

#### xix Related Parties

A party is related to the Funds if:

- (a) directly or indirectly through one or more of its intermediaries, it controls, is controlled by, or is under common control with, the Funds;
- (b) it is a parent, subsidiary or fellow subsidiary of a party defined in (a) above;
- (c) it has an interest in or relationship with the Funds that gives it significant influence or control over the Funds;
- (d) it is controlled by or may be significantly influenced by another party which also has control or significant influence over the Funds;
- (e) the Funds have an interest in or relationship with the party that gives significant influence over the party; or
- (f) it is an entity or member of a group which provides key management personnel services to the Funds

### 3. Accounting Estimates and Judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Manager to exercise its judgement in the process of applying the Funds' accounting policies. The Manager has applied its judgement in selecting the accounting policy to designate financial assets at fair value through profit or loss at inception. This policy has a significant impact on the amounts disclosed in the financial statements.

Although the Funds do not meet all of the typical characteristics of an investment entity (namely the Funds do not have multiple investments (with the exception of the Harbour New Zealand Advanced Beta Fund), the Manager believes they are investment entities because the Harbour wholesale funds were formed to, inter alia, provide investment management services to the Funds and the Funds effectively have exposure to multiple investments through their respective Harbour wholesale funds.

The Manager has made an estimate in relation to the PIE tax receivable from or payable to the Inland Revenue at year end. The estimate of the PIE tax receivable or payable was calculated based on an applied Prescribed Investor Rate ("PIR") during the year, as well as the taxable income at period end for the Funds, net of any payments already made or received from the Inland Revenue during the year. The Manager considered the PIR rate as well as the taxable income used in the calculation of the estimate to be reasonable. However it is possible that outcomes within the next financial year are different from the estimate and could require a material adjustment to the carrying amount of the PIE tax receivable or payable. The carrying amounts of the PIE tax receivables and PIE tax payables are disclosed in note 13.

**HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS)  
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Note	Harbour Australasian Equity Fund		Harbour Australasian Equity Income Fund		Harbour Australasian Focus Fund		Harbour New Zealand Equity Advanced Beta Fund	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>4. Other Expenses</b>								
Custody transaction fees	1,629	1,826	2,491	2,598	800	880	8,351	2,549
Sundry expenses	31,687	18,262	11,743	5,463	(1,443)	152	1,175	672
<b>Total other expenses</b>	<b>33,316</b>	<b>20,088</b>	<b>14,234</b>	<b>8,061</b>	<b>(643)</b>	<b>1,032</b>	<b>9,526</b>	<b>3,221</b>

**5. Net Gains/(Losses) on Financial Assets at Fair Value through Profit or Loss**

*Fair value through profit or loss - Designated*

New Zealand unitised PIE funds

New Zealand equities

**Net gains/(losses) on financial assets at fair value through profit or loss**

	20,987,691	7,675,836	3,028,663	4,784,132	648,064	279,813	-	-
	-	-	-	-	-	-	2,988,023	(109,532)
	<b>20,987,691</b>	<b>7,675,836</b>	<b>3,028,663</b>	<b>4,784,132</b>	<b>648,064</b>	<b>279,813</b>	<b>2,988,023</b>	<b>(109,532)</b>

**6. Financial Assets at Fair Value Through Profit or Loss**

*Financial assets at fair value through profit or loss - Designated*

New Zealand unitised PIE funds

New Zealand equities

**Financial assets at fair value through profit or loss**

	133,942,836	96,215,535	50,264,695	46,906,541	7,978,896	3,973,902	-	-
	-	-	-	-	-	-	48,588,705	14,636,441
	<b>133,942,836</b>	<b>96,215,535</b>	<b>50,264,695</b>	<b>46,906,541</b>	<b>7,978,896</b>	<b>3,973,902</b>	<b>48,588,705</b>	<b>14,636,441</b>

Percentage of financial assets relating to investments in the respective Harbour wholesale funds:

	100%	100%	100%	100%	100%	100%	N/A	N/A
--	------	------	------	------	------	------	-----	-----

The fair value of New Zealand equities is determined using quoted market prices in an active market. This measurement basis falls within level 1 of the fair value hierarchy.

The fair value of New Zealand unitised PIE funds is determined using the redemption price as reported by the administrator of the Harbour wholesale funds on a daily basis. The units held in these Funds are not publicly traded although redemptions can be made on a daily basis. This measurement falls within level 2 of the fair value hierarchy as all significant inputs used to calculate the fair value are based on observable market data.

There were no transfers between the levels during the year (2015: nil).

**7. Trade and Other Receivables**

Accrued interest

Dividends receivable

Outstanding settlements

Contributions receivable

**Total trade and other receivables**

	Harbour Australasian Equity Fund		Harbour Australasian Equity Income Fund		Harbour Australasian Focus Fund		Harbour New Zealand Equity Advanced Beta Fund	
	2016	2015	2016	2015	2016	2015	2016	2015
	-	6	-	-	-	-	-	-
	-	-	-	-	-	-	46,756	19,701
	-	-	101,525	39,487	5,748	3,822	-	-
	2,070,941	447,872	36,670	42,220	-	1,150	100,000	-
<b>Total trade and other receivables</b>	<b>2,070,941</b>	<b>447,878</b>	<b>138,195</b>	<b>81,707</b>	<b>5,748</b>	<b>4,972</b>	<b>146,756</b>	<b>19,701</b>

**Trade and Other Receivables from Related Parties**

Management fee rebate income receivable

**Total trade and other receivables from related parties**

	191,254	139,252	67,134	63,456	15,413	7,209	-	-
	191,254	139,252	67,134	63,456	15,413	7,209	-	-

All trade and other receivable balances are current assets. Trade and other receivables are classified as loans and receivables under NZ IAS 39.

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Note	Harbour Australasian Equity Fund		Harbour Australasian Equity Income Fund		Harbour Australasian Focus Fund		Harbour New Zealand Equity Advanced Beta Fund	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>8. Trade and Other Payables</b>								
Sundry expenses payable	11,230	7,116	4,394	3,612	466	6,766	1,967	4,262
Outstanding settlements	2,053,435	422,892	-	-	-	-	-	-
Withdrawals payable	17,507	24,980	138,196	81,708	5,748	4,972	-	-
<b>Total trade and other payables</b>	<b>2,082,172</b>	<b>454,988</b>	<b>142,590</b>	<b>85,320</b>	<b>6,214</b>	<b>11,738</b>	<b>1,967</b>	<b>4,262</b>
<b>Trade and Other Payables to Related Parties</b>								
Management fees payable	330,397	240,741	116,352	109,996	22,607	10,573	45,137	17,708
<b>Total trade and other payables to related parties</b>	<b>330,397</b>	<b>240,741</b>	<b>116,352</b>	<b>109,996</b>	<b>22,607</b>	<b>10,573</b>	<b>45,137</b>	<b>17,708</b>
All trade and other payables are current liabilities. Trade and other payables are classified as financial liabilities at amortised cost under NZ IAS 39.								
<b>9. Reconciliation of Net Profit Attributable to Unit Holders to Net Cash Flows (used in)/from Operating Activities</b>								
Net profit attributable to unit holders:								
<b>Plus Non Cash Items</b>								
Unrealised changes in fair value of financial assets								
Transfer of assets from Harbour Australasian Equity Fund (Wholesale Unit Trust)	6	(1)	(62,038)	(39,376)	(1,926)	16,591	(27,055)	(19,701)
Decrease/(increase) in trade and other receivables	(52,002)	(27,942)	(3,678)	(13,514)	(8,204)	(5,797)	-	-
Increase in related party receivables	1,634,657	178,818	782	(39,972)	(6,300)	2,745	(2,295)	4,262
Increase/(decrease) in trade and other payables	89,656	48,202	6,356	23,407	12,034	8,502	27,429	17,708
Increase in related party payables	(19,352,946)	(9,980,813)	(2,216,205)	(4,311,625)	(3,424,233)	(1,099,897)	(18,586,692)	(14,912,261)
Net purchases of investments	(17,680,629)	(9,781,736)	(2,274,783)	(4,381,080)	(3,428,629)	(1,077,856)	(18,588,613)	(14,909,992)
<b>Net cash flows (used in)/from operating activities</b>	<b>(15,604,004)</b>	<b>(7,919,890)</b>	<b>1,521,211</b>	<b>(1,075,364)</b>	<b>(3,383,503)</b>	<b>(1,092,228)</b>	<b>(16,312,738)</b>	<b>(10,596,595)</b>

**HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS)  
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**10. Related Parties**

**(a) Manager and Trustee**

The Manager of the Harbour Australasian Equity Fund (Retail Unit Trust), the Harbour Australasian Equity Income Fund (Retail Unit Trust), Harbour Australasian Equity Focus Fund (Retail Unit Trust) and Harbour New Zealand Equity Advanced Beta Fund (Retail Unit Trust) is Harbour Asset Management Limited.

The Manager is entitled to a management fee 1.0%, 0.90%, 1.10% and 0.52% per annum (plus GST) of the gross asset value ("GAV") of the Funds respectively.

The Manager rebates the management fee of 0.58% per annum (plus GST) paid in respect of the Harbour Australasian Equity Retail Fund's investment in the Harbour Australasian Equity Wholesale Fund, 0.52% per annum (plus GST) paid in respect of the Harbour Australasian Equity Income Retail Fund's investment in the Harbour Australasian Equity Income Wholesale Fund and rebates 0.75% per annum (plus GST) paid in respect of the Harbour Australasian Equity Focus Retail Fund's investment in the Harbour Australasian Equity Focus Wholesale Fund. This is accrued on the daily value of the Funds' assets and is paid quarterly in arrears.

The Manager is also paid a performance fee for outstanding performance returned by the Harbour Australasian Equity Fund and the Harbour Australasian Equity Focus Fund. The performance fee will be subject to a perpetual High Water Mark (HWM). A perpetual HWM is only ever reset higher when a performance fee is paid. A performance fee will only be paid if the unit price at the end of a performance period (31 December each year) is higher than the current HWM and the Fund return is greater than the benchmark return plus a 1% per annum performance hurdle. The Fund return is defined as the unit price return for the Fund (net of management fee). The benchmark for the Harbour Australasian Equity Fund (Retail Unit Trust) is the New Zealand Equity market return as defined by the Russell New Zealand Domestic Total Return Index (net of management fee). The benchmark for the Harbour Australasian Equity Focus Fund (Retail Unit Trust) is the Australasian Equity market return as defined by a composite index of 50% of the NZX 50 Gross Index and imputation credits). The benchmark for the Harbour Australasian Equity Income Fund (Retail Unit Trust) is the ASX 200 Index which is 50% hedged into NZD. The performance fee comprises 10% of the Fund return less the benchmark return plus the 1% per annum performance hurdle. The performance fee is accrued and adjusted on a daily basis and paid in arrears at the end of each calendar year. There is no performance fee on the Harbour Australasian Equity Income Fund (Retail Unit Trust) or the Harbour New Zealand Equity Advanced Beta Fund (Retail Unit Trust). A performance fee was paid by the Harbour Australasian Equity Focus Fund (Wholesale Unit Trust) which was reflected in the unit price of this investment.

Trustees Executors Limited is the Trustee of the Funds. It also undertakes the registry, custody and accounting functions. These fees are paid for by the Manager and included in management fees, except for the custody transactions fees, which are paid for by the Funds and included in administration expenses in the statements of comprehensive income. The Manager's and Trustee's fees are provided for in accordance with the respective Deeds of Establishment.

**Expenses or amounts payable to related parties for the year ended 30 June were as follows:**

	Harbour Australasian Equity Fund		Harbour Australasian Equity Income Fund		Harbour Australasian Equity Focus Fund		Harbour Australasian Equity Advanced Beta Fund		Harbour New Zealand Equity	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	12 months	12 months	12 months	12 months	12 months	12 months	12 months	4 months	12 months	8 months
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Harbour Asset Management Limited:</b>										
Management fee expense	1,193,198	939,841	458,302	416,797	60,363	37,176	132,284	29,762		
Management fee recognised in the unit price of the underlying investment	690,537	543,618	264,414	240,441	41,154	25,348	-	-		
Management fee rebate income received	(690,537)	(543,618)	(264,414)	(240,441)	(41,154)	(25,348)	-	-		
<b>Net Management fee expense</b>	<b>1,193,198</b>	<b>939,841</b>	<b>458,302</b>	<b>416,797</b>	<b>60,363</b>	<b>37,176</b>	<b>132,284</b>	<b>29,762</b>		
Management fee payable	330,397	240,741	116,352	109,996	22,607	10,573	45,137	17,708		
Management fee rebate income receivable	(191,254)	(139,252)	(67,134)	(63,456)	(15,413)	(7,209)	-	-		
<b>Trustees Executors Limited:</b>										
Custody transaction fees paid by the Fund	1,629	1,826	2,491	2,598	800	880	8,351	2,549		
Trustee, custody, accounting and registry fees paid by the Manager	104,452	90,374	62,256	60,418	42,890	42,571	53,264	31,566		
<b>Expenses paid by the Manager and recovered from the Funds:</b>										
Audit, registry compliance and trustee reporting fees are paid for by the Manager and recovered from the Funds as follows:										
Audit fees for statutory financial statements	7,185	7,132	4,520	6,779	3,136	6,469	4,481	3,220		
Audit Fees for registry compliance and trustee reporting	507	2,385	507	1,446	507	622	507	827		
	<b>7,692</b>	<b>9,517</b>	<b>5,027</b>	<b>8,225</b>	<b>3,643</b>	<b>7,091</b>	<b>4,988</b>	<b>4,047</b>		

During the year transactions in the Funds by the Manager, Directors and staff of the Manager, and their close family members were as follows:

	Units	2016	2015	2016	2015	2016	2015	2016	2015
Holding		140,720	157,512	155,249	150,481	364,135	292,651	100	100
Contributions		282,298	265,251	259,095	237,115	448,178	310,883	123	105
Withdrawals		28	28	15,020	-	77,322	18,967	-	100
Distributions		56	46	24,303	7,109	87,686	20,000	-	100
		16,820	22,757	10,252	10,481	5,838	7,722	-	-
		33,303	37,347	16,565	5,936	7,391	7,952	-	-
		-	-	5,791	9,131	-	-	-	-
		-	-	9,303	-	-	-	-	-



**HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS)  
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**10. Related Parties (continued)**

**(b) Other related entities**

(i) *Transaction with other related parties*  
The respective Harbour Wholesale Funds transact with a number of brokerage houses including a related party broker, First NZ Capital Securities Limited, when purchasing or selling securities. The brokerage fees paid by each of the wholesale funds is reflected in the Fund's unit price which is used for the purchase and redemption of the wholesale fund's units by the relevant retail unit trust.

Brokerage fees on some purchase and sale transactions are paid to First NZ Capital Securities Limited, a related party of the Manager, on the transaction settlement date.

**Brokerage fees paid or payable for the year ended 30 June were as follows:**

Brokerage fee expense

(ii) *Investments by the Funds in related parties*

The Funds hold units in the following Harbour Asset Management related products as at 30 June:

**Harbour Australasian Equity Fund (Wholesale Unit Trust)**

Holding

	Harbour Australasian Equity Fund 2016	2015	Harbour Australasian Equity Income Fund 2016	2015	Harbour Australasian Equity Focus Fund 2016	2015	Harbour New Zealand Equity Advanced Beta Fund 2016	2015
Units	64,262,743	55,261,349	-	-	-	-	-	-
\$	133,942,836	96,215,535	-	-	-	-	-	-
% of the Fund's Net Assets	99.92%	99.85%	-	-	-	-	-	-
% of units on issue	28.68%	16.18%	-	-	-	-	-	-
Units	5,110,584	5,741,764	-	-	-	-	-	-
\$	9,832,064	9,892,294	-	-	-	-	-	-
Units	14,111,978	10,470,119	-	-	-	-	-	-
\$	26,571,673	17,594,364	-	-	-	-	-	-

**Harbour Australasian Equity Income Fund (Wholesale Unit Trust)**

Holding

	2016	2015	2016	2015	2016	2015
Units	29,024,538	28,810,601	-	-	-	-
\$	50,264,695	46,906,541	-	-	-	-
% of the Fund's Net Assets	99.97%	99.96%	-	-	-	-
% of units on issue	55.84%	59.04%	-	-	-	-
Units	5,968,663	4,353,235	-	-	-	-
\$	10,002,860	7,076,322	-	-	-	-
Units	6,182,600	6,251,155	-	-	-	-
\$	10,332,351	9,927,745	-	-	-	-
\$	2,120,494	2,035,696	-	-	-	-

**Harbour Australasian Equity Focus Fund (Wholesale Unit Trust)**

Holding

	2016	2015	2016	2015	2016	2015
Units	-	-	-	-	-	-
\$	-	-	-	-	-	-
% of the Fund's Net Assets	-	-	-	-	-	-
% of units on issue	-	-	-	-	-	-
Units	-	-	-	-	-	-
\$	-	-	-	-	-	-
Units	-	-	-	-	-	-
\$	-	-	-	-	-	-

(iii) *Investments in the Funds by related parties*

The following related entities held units in the Funds for the year:

**T.E.A. Custodians Limited - Client Property Trust Account**

Holding

	2016	2015	2016	2015	2016	2015
Units	-	-	-	-	-	-
\$	-	-	-	-	-	-
% of the Fund's Net Assets	-	-	-	-	-	-
% of units on issue	-	-	-	-	-	-
Units	-	-	-	-	-	-
\$	-	-	-	-	-	-
Units	-	-	-	-	-	-
\$	-	-	-	-	-	-
Contributions	-	-	-	-	-	-
\$	-	-	-	-	-	-

21,245,111	13,912,936
26,176,615	14,665,002
53.10%	100.00%
53.10%	100.00%
7,332,175	13,912,936
7,815,422	14,607,283

Contributions

21,245,111

26,176,615

53.10%

53.10%

7,332,175

7,815,422

13,912,936

14,665,002

100.00%

100.00%

13,912,936

14,607,283

**HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS)  
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**11. Financial Risk Management**

The Funds are subject to a number of financial risks which are as a result of its activities, including: market risk, credit risk and liquidity risk. The Funds' overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Funds' financial performance.

The overall risk is managed through regular Investment Committee meetings and oversight is provided by the Funds' Audit Committee and Board. The Manager manages overall risk through the Funds' investments in the Harbour wholesale funds and as such, the risk assessment is not undertaken on a look through basis to the underlying funds.

The Manager believes in a growth-orientated active investment management approach to generate alpha (return over the benchmark) for the Funds. The Manager employs a combination of quantitative and fundamental research approaches when selecting New Zealand equities and New Zealand unithised PIE funds for inclusion in the Funds' portfolios.

The Manager uses a quantitative based investment process that seeks to identify the key out-performance indicators for the Funds' investments. These indicators or factors comprise earnings, quality and balance sheet variables intended to identify investments that will potentially grow earnings faster than the consensus expects. The Manager also rates investments according to both income and valuation metrics.

The Manager's investment research team focuses research within the investments that are ranked strongly in the investment process. Investments that are highly ranked by the combination of the quantitative scores are Buy rated and have above average Corporate Behaviour (ESG) scores are strong contenders for inclusion in the Funds' investment portfolios.

**Market Risk**

The Funds are exposed directly to price risk through their holding of New Zealand equities and New Zealand unithised PIE funds. The maximum market risk resulting from financial instruments is determined by their fair value. The Funds are not directly exposed to currency risk or significant interest rate risk.

**(i) Price Risk**

Price risk is the risk that the fair value of a security will fluctuate because of changes in market prices. This could be due to factors specific to an issuer or factors affecting all similar financial instruments traded in the market.

The Funds are indirectly exposed to price risk through their investments in the underlying Harbour wholesale unit trusts and directly exposed to price risk of New Zealand equities. All equity and unit trust investments present a risk of loss of capital often due to factors beyond the Manager's control such as competition, regulatory changes, commodity price changes and changes in general economic climate domestically and internationally. The Manager moderates this risk through research, careful stock selection, diversification, daily monitoring of the Funds' market position and adherence to the Funds' investment policies.

**Sensitivity Analysis**

A variable of 10% was selected for price risk as this is a reasonably expected movement based on historic trends.

The following table shows the sensitivity of profit for the year and sensitivity of unit holders' funds to reasonably possible changes in unit and equity prices at 30 June with all other variables held constant.

	Harbour Australasian Equity Fund		Harbour Australasian Equity Income Fund		Harbour Australasian Focus Fund		Harbour New Zealand Equity Advanced Beta Fund	
	2016	2015	2016	2015	2016	2015	2016	2015
Financial assets at fair value through profit or loss	\$	\$	\$	\$	\$	\$	\$	\$
New Zealand equities and unithised PIE funds	133,942,836	96,215,535	50,264,695	46,906,541	7,978,896	3,973,902	48,588,705	14,636,441
Impact of a -10% change in prices	(13,394,284)	(9,621,554)	(5,026,470)	(4,690,654)	(797,890)	(397,390)	(4,858,871)	(1,463,644)
Impact of a +10% change in prices	13,394,284	9,621,554	5,026,470	4,690,654	797,890	397,390	4,858,871	1,463,644

Unit holders' funds would be impacted by the same amount less the impact of PIE tax adjustments that would be attributed to unit holders.

**Liquidity Risk**

Liquidity risk is the risk that the Funds will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. Liquidity risks are managed by maintaining a sufficient level of cash to meet typical redemptions and commitments without having to redeem securities. In highly stressed market conditions this may apply to many securities and affect an investor's ability to sell units in the Funds. Liquidity risk is managed by holding liquid investments to enable the Funds to meet normal redemptions and commitments. The Harbour New Zealand Equity Advanced Beta Fund invests in securities which are listed on the New Zealand Stock Exchange and are readily saleable. The other Funds invest in the Harbour Wholesale Funds, which in turn, maintain sufficient liquidity in their portfolios to cover reasonably foreseeable redemptions under normal market conditions.

Monies received from unit holder contributions may be used to offset withdrawals and the Manager may in certain circumstances suspend withdrawals (Note12).

The Funds' financial liabilities consist of trade and other payables which are short term in nature and classified as a current liability at balance date. Maturities are not expected to exceed 90 days.

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**11. Financial Risk Management**

**Credit Risk**

Credit risk is the potential risk of financial loss resulting from the failure of counterparties to honour the terms and conditions of a contract with the Funds. Financial instruments that subject the Funds to credit risk are cash and cash equivalents and trade and other receivables.

The Funds are also indirectly exposed to credit risk through their monetary assets in the underlying Harbour wholesale unit trusts, which due to the risk and reward profile of these investments are to be similar to that of an equity holding and they are therefore not included in the credit risk sensitivity analysis.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold against payment received and payment for purchases against securities received occur at the same time via an automated clearing system. The trade will fail if either party fails to meet its obligation. There is no risk of default relating to contributions receivable by the Funds as this receivable has arisen only due to timing between the date of receipt of the funds and when the units are allocated and the receipts processed. The maximum credit risk of financial instruments is considered to be the carrying amount on the statements of financial position. The risk of non-recovery of financial assets is considered minimal due to the quality of counterparties dealt with.

As at 30 June 2016 there were no financial assets past due or impaired (30 June 2015: nil).

**12. Capital Management**

The Funds manage their unit holders' funds as capital. All units in the Funds carry the same rights and restrictions. As at 30 June the Funds classified the following as equity:

	Harbour Australasian Equity Fund		Harbour Australasian Equity Income Fund		Harbour Australasian Focus Fund		Harbour New Zealand Equity Advanced Beta Fund	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Equity</b>	<b>134,045,865</b>	96,358,807	<b>50,280,840</b>	46,924,319	<b>7,971,437</b>	3,962,145	<b>49,300,059</b>	14,665,107
<b>Units</b>	<b>66,816,307</b>	57,219,528	<b>30,126,384</b>	29,781,291	<b>6,475,732</b>	3,736,967	<b>40,012,248</b>	13,913,036

The Funds have no restrictions or specific capital requirements on the subscriptions and redemptions of units. It is impractical to predict when unit holders expect to redeem their units and the Funds are exposed to daily cash withdrawals. The Funds therefore primarily hold investments that can be either easily redeemed or are traded in an active market and can be readily disposed of. The Manager may, in certain circumstances, suspend withdrawals if the Manager believes it is not practical or desirable or would be prejudicial to the interests of the unit holders for the withdrawals to be made.

The Manager has discretion as to whether to distribute any net income of the Funds. Income that is not distributed is invested as part of the assets of the Funds or may also be used to make later distributions to unit holders.

The Harbour Australasian Equity Income Fund made distributions of \$2,120,494 (2015: \$2,035,696) during the year. This was paid in cash of \$1,916,100 (2015: \$1,854,886) with the remainder reinvested.

**13. Tax Attributable to Unit Holders**

Unit holders' tax payments and refunds are settled with the Inland Revenue ("IR") via the cancellation and issue of units in the Funds. Tax deducted at source on behalf of unit holders is used to reduce unit holders' tax liabilities.

	Harbour Australasian Equity Fund		Harbour Australasian Equity Income Fund		Harbour Australasian Focus Fund		Harbour New Zealand Equity Advanced Beta Fund	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>12 months</b>	<b>\$ 4,621</b>	863	<b>3,665</b>	452	<b>1,695</b>	100	<b>49,300,059</b>	14,665,107
Accrued unit holder attributed tax payable at beginning of the year	<b>1,089</b>	(4,621)	<b>1,856</b>	(3,665)	<b>463</b>	(1,695)	<b>40,012,248</b>	13,913,036
Unit holder attributed tax received/(paid) during the year	<b>(10,503)</b>	(30)	<b>(4,516)</b>	297	<b>(2,260)</b>	(13)	<b>49,300,059</b>	14,665,107
<b>Unit holder attributed tax expense for the year</b>	<b>(4,793)</b>	(3,788)	<b>1,005</b>	(2,916)	<b>(102)</b>	(1,608)	<b>49,300,059</b>	14,665,107

Please also refer to note 2xi of the Summary of Accounting Policies for further details.

**14. Involvement with Unconsolidated Subsidiaries**

Subsidiaries are investees controlled by the Funds. The Funds 'control' an investee if they are exposed to, or have rights to, variable returns from their involvement with the investee and have the ability to affect those returns through their power over the investee.

The Funds' trust deed requires a 75% majority vote to pass an Extraordinary Resolution for key decisions. Therefore, the Manager has determined that control exists when it holds 75% of the issued units in the investee. At 30 June 2016, the Funds did not have any controlling interests in investees (2015: Nil controlling interests in investees).

**HARBOUR AUSTRALASIAN EQUITY FUNDS (RETAIL UNIT TRUSTS)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

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**15. Contingent Liabilities**

There were no material contingent liabilities as at 30 June 2016 (30 June 2015: nil).

**16. Capital Commitments**

There were no material capital commitments as at 30 June 2016.

In the prior year the Harbour New Zealand Equity Advanced Beta Fund had a sub underwriting commitment in Pacific Edge Biotech of \$7,041, this settled on 6 July 2015. The agreement was with First NZ Capital Securities Limited, a related party of the Manager.

**17. Significant non-cash transactions**

During the year a unitholder made a contribution to the Harbour New Zealand Equity Advanced Beta Fund by transferring \$13,676,608 equity shares to the Fund.

**18. Subsequent Events**

The Funds opted into the FMC regime on 30 September 2016.

There were no other material events which require adjustment to or disclosure in these financial statements.





## ***Independent Auditors' Report***

to the unit holders of the Harbour Australasian Equity Funds (Retail Unit Trusts)

### ***Report on the Financial Statements***

We have audited the financial statements of the Harbour Australasian Equity Funds (Retail Unit Trusts), comprised of each of the following Funds:

- Harbour Australasian Equity Fund
- Harbour Australasian Equity Income Fund
- Harbour Australasian Equity Focus Fund
- Harbour New Zealand Equity Advanced Beta Fund

(the "Funds") on pages 2 to 16, which comprise the statements of financial position as at 30 June 2016, the statements of comprehensive income, the statements of changes in unit holders' funds and the statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

### ***Manager's Responsibility for the Financial Statements***

The Funds' Manager is responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such internal controls as the Manager determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Manager's preparation and fair presentation of the financial statements of the Funds, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Manager's internal control over the Funds. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We are independent of the Funds. Our firm carries out other services for the Funds in the areas of registry compliance reporting and trustee reporting. The provision of these other services has not impaired our independence.



***Independent Auditors' Report***  
Harbour Australasian Equity Funds (Retail Unit Trusts)

***Opinion***

In our opinion, the financial statements on pages 2 to 16 present fairly, in all material respects, the financial position of the Funds as at 30 June 2016, and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

***Restriction on Use of our Report***

This report is made solely to each Fund's unit holders, as a body. Our audit work has been undertaken so that we might state to the Fund's unit holders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than each Fund's unit holders, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants  
14 October 2016

Wellington