



Hunter Investment Funds

Statement of Investment Policy and Objectives

Effective Date 21 February 2025

Issued by Harbour Asset Management Limited

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on www.disclose-register.companiesoffice.govt.nz. Harbour Asset Management Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013 ('FMC Act'). You can also seek advice from a financial adviser to help you make an investment decision.

1. Background

This Statement of Investment Policy and Objectives ('SIPO') sets out the investment policies and objectives for the Hunter Investment Funds ('Scheme'). This SIPO takes effect from the 21st February 2025 and replaces the SIPO for the Scheme dated 30 September 2024. Harbour Asset Management Limited, referred to as "Harbour", "we", "us" or "our" in this SIPO is the manager ('Manager') of the Scheme under the Financial Markets Conduct Act 2013 (FMC Act).

The SIPO is subject to change from time to time. Where required by trust deed or law, you will receive prior notification of any material change to an investment strategy or objective. The most current version of this SIPO is available on the scheme register at <https://discloseregister.companiesoffice.govt.nz/>.

Harbour is part of a group of investment and advisory businesses ultimately owned by FirstCape Group Limited (FirstCape). FirstCape is jointly owned by National Australia Bank Limited (NAB), Jarden Wealth and Asset Management Holdings Limited (Jarden) and funds managed by Pacific Equity Partners (PEP). NAB is a licensed bank in Australia and is the parent company of Bank of New Zealand. Prior to this Harbour was owned by the Jarden Group (as to 76% interest) and minority interests comprising eligible staff and directors (as to 24% interest).

2. Description of the managed investment scheme

The Scheme is a managed investment scheme (MIS) for the purposes of the FMC Act. The Scheme offers two single sector investment funds (each a 'Fund', collectively 'Funds'):

- the actively managed Hunter Global Fixed Interest Fund, which provides investors with exposure to international fixed interest (hedged to New Zealand Dollars); and
- the actively managed Hunter Private Credit Fund, which provides investors with exposure predominantly to Australasian private credit with the ability to attribute a portion to global private credit and Australasian public market debt securities (hedged to New Zealand Dollars).

3. About Harbour

Harbour's Investment Philosophy

Harbour's investment philosophy is focused on consistency – in combining fundamental analysis with the skill of experienced people. We believe:

- that quality research is the backbone of investment out-performance;
- in the consistency of our investment process;
- in responsible investing; and that
- there is no substitute for experience.

Harbour is a client focused, research driven, investment manager.

Investment strategy implementation and review

Harbour, as the Manager of the Scheme, is responsible for the investment management of the Funds. This involves (but is not limited to):

- Establishing, reviewing and maintaining this SIPO;
- Investing and managing the assets of the Funds (unless the Manager delegates this to an investment manager – see below);
- Managing currency hedging (unless the Manager delegates this to an investment manager – see below).
- The ongoing management and oversight of the Funds. This includes appointing, managing and monitoring specialist providers for administration and investment management; and

- Monitoring investment performance and outcomes.

The Board of Directors of Harbour ('Board') or its delegates oversee the investment management activities and are responsible for reviewing investment performance, compliance with the investment mandates, and processes and outcomes. The Board aims to meet at least four times a year.

The investment management activities are managed by Harbour staff who implement the investment strategies by conducting research and analysis, selecting investments including underlying investment managers, monitoring investment performance, and reporting to the Board.

4. Investment strategies and objectives

Each Fund has a specific investment strategy and objective with separate and distinct permitted and prohibited investments. This information is set out below.

Hunter Global Fixed Interest Fund

Investment philosophy

The Hunter Global Fixed Interest Fund philosophy is to appoint a global manager that in our view will add value through active management.

PIMCO has been appointed as the underlying specialist investment manager of the Hunter Global Fixed Interest Fund. PIMCO's fixed income philosophy revolves around the principle of diversification. PIMCO believes that no single risk should dominate returns. By diversifying strategies, or relying on multiple sources of value, PIMCO is confident that it will be able to meet the investment objectives with a high degree of consistency. PIMCO seeks to add value through the use of "top-down" strategies such as its exposure to interest rates, or duration, changing volatility, yield curve positioning and sector rotation. PIMCO also employs "bottom-up" strategies involving analysis and selection of specific securities. By combining perspectives from both the portfolio level and the security level, PIMCO seeks to consistently add value over time while incurring acceptable levels of portfolio risk.

Fund Investment Objectives and Strategies

The investment objectives and strategy for the Fund is:

Investment Objectives

The investment objective of the Fund is to provide a total return, before costs and tax, 1% per annum higher than the Bloomberg Barclays Global Aggregate Index – 100% New Zealand dollar hedged over a rolling 3 year period. The ex-post tracking error is expected to be below 3%.

Investment Strategy

Benchmark index

- Bloomberg Barclays Global Aggregate Index – 100% New Zealand dollar hedged.

Benchmark asset allocation

- 100% International fixed interest.

Asset allocation ranges:

- 95%-100% International fixed interest ('Portfolio'); and
- 0% - 5% funding account (holds NZD cash and cash equivalents).

Credit Quality:

- The minimum average Portfolio credit quality is A-.

Interest rate duration range

- The average interest rate duration of the Portfolio must be within +/- 3 years of the average interest rate duration of the Benchmark Index.

Appointed specialist investment manager:

- The current investment manager of the Portfolio is PIMCO Australia Pty Ltd.

Permitted investments:

The Portfolio can invest in:

- Government and Agency Securities, Supranational Securities, Local Authorities Bonds, Corporate Securities, Event-linked Bonds, Money Market Instruments, Bank Loans, Yankee and Euro Bonds, Mortgage-Backed Securities (including CMOs and REMICs), Mortgage Derivatives, Asset-Backed Securities, Preferred Stock, Convertible Securities, Emerging Market Securities, Private Placements, Structured Notes, Futures and Forwards, Foreign Exchange, Options, Caps and Floors, Swaps and Swaptions, Credit Default Swaps (Long and Short), Spread trades, CDOs, CLOs and CBOs; and
- Cash and cash equivalents. Cash equivalents are defined by PIMCO as being securities rated at least A- with a duration generally one year or less; and
- Derivative instruments including currency hedging instruments.

The Portfolio may use derivatives such as options, futures, swaps or credit derivatives for the purpose of:

- Protecting against risks such as unfavourable changes in an investment's price;
- Enhancing returns by taking advantage of pricing inefficiencies;
- As a cost-effective alternative to purchasing physical assets;
- Implementing the investment objectives of the Fund; and
- Currency management.

Prohibited investments¹:

Investment in the following assets is specifically prohibited (derivative positions that may include exposures as part of a basket are exempt from these restrictions, e.g. basket credit default swaps for spread trade or hedging etc.):

- Tobacco companies;
- Armament manufacturers;
- Cluster munitions development or production;
- The Fund will not invest in companies who derive more than 10% of their earnings from pornography or gambling;
- The Portfolio will not invest in companies who derive more than 10% of their earnings from or whose only, core, or majority business is the exploration, extraction, refining or processing of fossil fuels. In addition, the Portfolio will not invest in any utility who primarily burns fossil fuels. The development or operation of pipelines are excluded from this restriction; and

¹ The Investment Manager has authority to take actions in connection with exchanges, reorganisations, conversions or other corporate events that could result in the receipt of securities (including, but not limited to, common stock) that may or may not be permitted investments. The Investment Manager may, in the best interest of the portfolio, hold these for a reasonable amount of time (as determined by the Investment Manager in its commercially reasonable discretion). The Portfolio may invest in New Zealand fixed interest. This is included in its asset allocation to international fixed interest.

- The Portfolio will not invest in companies involved in ‘very severe’ controversies that score 0 (‘red flag’) on MSCI’s ESG Controversy criteria.

Investments are screened for compliance against the prohibition criteria and if any investments are identified as breaching the exclusions criteria, these investments are investigated. If there is found to be a valid breach of the prohibition criteria, the investment would be subsequently divested, and investors advised accordingly.

Rebalancing policy:

- As a single-sector fund, there is no need for a rebalancing policy.

Currency management

- The Fund targets being fully hedged to New Zealand dollars. Hedging is performed by PIMCO, who may also take active currency positions between currencies (for example, increasing or decreasing the Fund’s exposure to different underlying currencies).

Funding account

- The purpose of the funding account is to manage non-investment related liquidity amounts primarily attributable to fund expenses and investor contributions or withdrawals. Large investor contributions or withdrawals may result in the funding account exposure temporarily being outside the 0%-5% range.

The funding account balance is monitored daily and amounts surplus to requirements of the Fund for matters such as funding redemptions or payments of fees are transferred to the Portfolio for investment by PIMCO. Harbour makes no active investment decisions in relation to the funding account cash holding.

Other:

- The Fund can borrow up to 20% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions, securities settlement, or pay expenses).

Hunter Private Credit Fund

Investment philosophy

The Fund provides investors with exposure across private credit segments, including bilateral lending to small-to-medium sized enterprises (where there is a borrower and a single lender), leveraged loans (a type of loan made to borrowers who already have high levels of debt and/or a low credit rating), asset-backed lending (lending backed by a pool of underlying loans such as mortgages, auto-loans, or credit card loans) and business equipment receivables (a business purchasing equipment on an installment basis). The Fund is typically exposed to sub-investment grade borrowers which have a substantially higher risk of default than investment grade entities.

Private credit encompasses a broad opportunity which Harbour defines as debt funding where the debt is not issued or traded on public markets. The Fund is expected to be diversified across different private credit segments and will adjust allocations from time to time, where opportunities are created by the scarcity of capital. Harbour focuses on investments predominantly in Australasia where private credit markets are less developed (in comparison with the United States market) and therefore, in our view, may offer more attractive returns.

Opportunities are sourced both directly and via specialist third-party investment managers.

Investment Objectives

The investment objective of the Fund is to provide a total return, before costs and tax, 4% per annum higher than the New Zealand Official Cash Rate over a rolling 3-year period.

This Fund invests in sub-investment grade debt which carries a higher level of default risk when compared to standard fixed interest funds. For more information on this risk and the other risk for this Fund please refer to the Product Disclosure Statement on the Disclose Register at www.disclose-register.companiesoffice.co.nz.

Investment Strategy

Benchmark index

There is no appropriate or suitable benchmark index and no suitable comparable per group index for the Fund against which to assess either movements in relation to the returns for the assets in which the Fund invests or the performance of the Fund as a whole.

Benchmark asset allocation*:

- 60% New Zealand Fixed Interest
- 35% International Fixed Interest; and
- 5% Cash or cash equivalents.

Asset allocation ranges*:

- 30%-100% New Zealand Fixed Interest
- 0-70% International Fixed Interest; and
- 0-50% Cash or cash equivalents

*Under the current regulatory approach there is no prescribed asset class for private credit. While the benchmark asset allocation gives a high-level overview of the asset classes, the actual benchmark exposures are 60% New Zealand Private Credit, 35% Australian Private Credit, and 5% Cash or cash equivalents. The same is true for the asset allocation ranges which are 30%-100% New Zealand Private Credit, 0-70% Australian Private Credit, 0-25% International Private Credit, 0-25% Australasian public bond markets, and 0-50% Cash or cash equivalents.

While the Fund predominately aims to invest in Australasian private credit we have retained the flexibility to invest in favorable adjacent investment opportunities by including an allowable allocation to International private credit and Australasian public bond markets.

Individual Exposure Limits:

- Maximum individual borrower exposure: 15%.

Aggregate interest rate duration range:

- 0-2 years.

Currency management:

- Offshore currency exposure is hedged between 95% to 105% tolerance range.

Permitted investments:

The Fund invests by providing debt funding to entities to generate returns. This may include but is not limited to:

- Direct business lending to small to medium sized entities for general purposes and acquisitions;
- Large businesses for acquisitions and business combinations (leveraged loans);
- Non-bank lenders (asset backed warehouse lending);
- Equipment lease receivables; and
- Property related lending, spanning stabilised operating property finance to construction lending.

We recognise that the definition of venture debt (providing funding to early stage ventures) is not black and white and therefore the Fund may hold debt which some may consider venture debt.

The Fund may lend directly or via third-party Funds.

The Fund may use derivatives such as foreign exchange futures or interest rate swaps and (interest rate) options for the purpose of:

- Hedging interest rate risk bringing it to the permissible duration range; and
- Hedging currency exposure into the permissible range.

Prohibited Investments:

The Fund does not make equity investments, but in some circumstances may receive compensation in the form of equity. The manager would seek to exit (sell) such equity positions, realising the best outcome for Unit Holders. We will aim to sell such positions within six months of acquiring them. Limited liquidity may mean the position is held longer than six months.

The Fund does not invest in distressed debt, but positions may become distressed during a holding period in which case we will evaluate the best course of action for unit holders.

The Fund excludes companies involved in certain activities as described in Harbour's exclusion policy found here [Responsible Investing » Harbour Asset Management](#).

The Fund will not provide debt funding to any related party of the Scheme (as defined in FMC Act).

Leverage:

The Fund is not permitted to use leverage with the intention of increasing the returns of the Fund (which can also increase losses). However, the Fund may borrow (on a temporary basis) for the purposes of conducting the management or operations of the Fund including the payment of investor redemptions or settlements. The Fund aims to net applications and redemptions to meet investor liquidity requirements each month, and does not intend to borrow for this purpose without a high certainty of future cashflows.

We do not consider outstanding settlement positions as leverage, and interest rate and hedging derivative exposures are not considered leverage provided exposures sit within the permissible ranges stated above.

5. Investment Policies

We maintain a number of policies and processes relevant to the Scheme. A summary of these follows.

Responsible Investment

Harbour's Environmental, Social and Governance Policy applies to the Hunter Private Credit Fund. We take responsible investment, including environmental, social, and governance (ESG) considerations, into account in the investment policies and procedures of the Funds. For an explanation of the extent to which responsible investment is taken into account in those policies and procedures, see [Responsible Investing » Harbour Asset Management](#).

Whilst we apply the Harbour Environmental, Social and Governance Policy where possible, the permitted and prohibited investments for the Hunter Global Fixed Interest Fund are set out in section 4 "Investment strategies and objectives".

Liquidity

The liquidity risk of a Fund is assessed with reference to liquidity of the underlying assets and securities. The Manager then establishes an appropriate application and redemption frequency for each Fund. For further details on this, please refer to the relevant PDS for each Fund.

For the Hunter Global Fixed Interest Fund, that Fund invests predominantly in liquid securities and hence has daily applications and redemptions. Market conditions can, however, change resulting in some assets becoming difficult to sell. Hence if the Fund were to experience liquidity problems the Manager may defer or suspend redemptions for a period of time.

The Hunter Private Credit Fund invests in a mixture of third-party funds and direct loans. This Fund invests in assets with limited liquidity and therefore may only be transacted monthly or such time as specified in the PDS for the Fund. During periods of heightened market stress the Fund may experience loan defaults or restricted liquidity within underlying funds. This may result in a suspension of redemptions from the Fund. For further information about what tools the Manager may use to manage liquidity please refer to the liquidity tools set out in the "Other Material Information" document for the Fund.

Unit Pricing and Unit Register

The purpose of this policy is to set out how Harbour manages its unit pricing and unit register obligations, and the way in which Harbour exercises its discretions authorised by the Trust Deed and the establishment documentation for the Scheme.

Harbour outsources functions including registry, fund administration and unit pricing to third parties. In particular, the policy governs how Harbour selects, monitors and undertakes ongoing due diligence on third party providers.

Within the bounds of what is reasonable and practical, our goals are to:

- Have unit prices that reflect fair, realisable value of underlying assets and liabilities;
- Ensure equitable treatment of investors entering, exiting or remaining in the Funds;
- Have a consistent and objective process for determining unit prices; and
- Comply with our governing documents, offer documents and the law.

Derivatives Policy

The use of derivatives in the Hunter Private Credit Fund is governed by the Harbour Derivative Risk Statement (DRS). The DRS summarises the policies in place covering the use of derivatives, controls on their use, and the processes for assessing compliance with those controls. These policies and controls are intended to ensure proper use of derivatives. Derivatives are not to be considered in isolation, but as part of the investment operations of the responsible party as a whole and the investment strategy being implemented. The DRS will be reviewed by management regularly and understood by all persons responsible for managing, monitoring or implementing the investment processes of Harbour.

The Hunter Global Fixed Interest Fund is governed by the PIMCO Use of Derivatives Statement, which outlines the implementation of derivatives in the Fund for various purposes, including but not limited to risk management, hedging, duration management, curve exposure, and situations where it is more efficient for the Fund to achieve the desired asset exposure.

Trade allocations and transactions

If a Fund deals in public market bonds, we apply Harbour's best execution policy where applicable.

Credit Risk

Harbour uses an internal credit rating model to determine the credit rating of investments within the Fund where one is not readily available. This same model is used to monitor the credit ratings of investments for changes on an ongoing basis.

The Hunter Global Fixed Interest Fund operates within clearly defined credit risk constraints that set minimum average portfolio credit ratings, minimum issue ratings and concentration limits. The Fund uses the higher credit ratings provided by external rating agencies Moody's, S&P or Fitch to determine compliance. Credit risk is also constrained by overall portfolio tracking error constraints.

Harbour External Manager Selection and Monitoring Policy

Harbour follows the External Manager Selection and Monitoring Policy to confirm the process behind the selection and ongoing monitoring of external investment managers by Harbour.

6. Investment performance monitoring

Harbour monitors investment performance of the Funds on a monthly basis. Where applicable, performance is measured and assessed on the following basis for 1, 3 and 5 year periods:

- Gross return;
- Net of charges and gross of tax;
- Net of charges and gross of tax at highest investor PIR (28%);
- Benchmark index return;
- Performance relative to benchmark;
- Annualised standard deviation of gross return;
- Annualised standard deviation of benchmark index return; and
- Annualised tracking error.

Harbour reports performance to the Supervisor and also to the Harbour board.

7. Investment strategy review

The Manager's policies and procedures in relation to appointing and monitoring investment managers. In particular the policy covers:

- Investment management governance,
- Investment manager selection and appointment, and
- Investment manager monitoring and compliance.

8. SIPO monitoring and review

The Harbour Board is responsible for governance oversight of the SIPO.

Harbour management and the Board will review this SIPO annually (or more frequently if required), with the outcomes of the review reported to the Board. In addition, Harbour management may initiate an ad hoc review, with examples of events that could lead to this being:

- The investment manager recommending changes to the SIPO;
- A change in roles and responsibilities; and
- A permanent change in risk and return characteristics of the relevant market.

SIPO reviews take into account the views of Harbour and each investment manager and if required the views of external experts.

The Manager can make changes to the SIPO in accordance with the Trust Deed and the FMC Act. Before making changes to the SIPO, the Manager will consider if the changes are in the best interests of investors and consult with the Supervisor. Any changes to the SIPO require Board approval, as well as written approval of the Supervisor. The Manager will give notice to investors before implementing any material SIPO changes.

The Manager is responsible for monitoring adherence to the SIPO and reporting any breaches to the board and the Supervisor.

This SIPO was approved by the Board and takes effect on 21 February 2025.

Glossary

Benchmark Index means the financial index or indices against which the performance of a Fund is measured.

PIMCO means PIMCO Australia Pty Limited.

Scheme means the Hunter Investment Funds, a managed investment scheme established under a trust deed dated 1 December 2016 and offered in accordance with the FMC Act.

Supervisor means the supervisor of the Scheme, which is The New Zealand Guardian Trust Company Limited.

Tracking error means the annualised standard deviation of the difference between the returns of a Fund and the benchmark against which its performance is measured.

Underlying fund means any other investment fund into which a Fund invests.

Unit Holders means all investors who hold units within a Fund.