
**HARBOUR NZ FIXED INTEREST FUNDS (RETAIL UNIT TRUSTS)
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016**

	Unit Trust Register No.
Including the following Funds:	
Harbour NZ Corporate Bond Fund	2208492
Harbour NZ Core Fixed Interest Fund	2548776
Harbour Income Fund	2633232

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**HARBOUR NZ FIXED INTEREST FUNDS (RETAIL UNIT TRUSTS)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2016**

	Note	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
		2016	2015	2016	2015	2016
		12 Months \$	12 Months \$	12 Months \$	12 Months \$	10 Months \$
Revenue						
Interest income	4	11,282,774	9,359,835	1,434	1,686	36
Dividend income		10,648	99,185	3,076,793	2,868,969	28,768
Net gains on financial assets at fair value through profit or loss	7	3,213,900	4,109,455	4,437,613	2,377,814	17,944
Total revenue		14,507,322	13,568,475	7,515,840	5,248,469	46,748
Other income	5	27,725	13,374	127,480	85,997	3,223
Expenses						
Management fees	11	1,476,239	1,116,334	637,691	430,283	4,081
Other expenses	6	59,094	34,367	29,486	14,393	612
Brokerage fees		7,218	4,417	-	-	-
Recovery of fees paid to the Auditor	11	12,201	16,308	7,877	9,241	-
Total expenses		1,554,752	1,171,426	675,054	453,917	4,693
Net profit attributable to unit holders		12,980,295	12,410,423	6,968,266	4,880,549	45,278
Total Comprehensive Income Attributable to Unit Holders		12,980,295	12,410,423	6,968,266	4,880,549	45,278

The Notes to the Financial Statements set out on
pages 6 to 15 should be read in conjunction with these statements of comprehensive income.

**HARBOUR NZ FIXED INTEREST FUNDS (RETAIL UNIT TRUSTS)
STATEMENTS OF CHANGES IN UNIT HOLDERS' FUNDS
FOR THE PERIOD ENDED 30 JUNE 2016**

	Note	Harbour NZ Corporate Bond Fund 2016		Harbour NZ Core Fixed Interest Fund 2016		Harbour Income Fund 2016
		12 Months \$	2015 12 Months \$	12 Months \$	2015 12 Months \$	10 Months \$
Unit Holders' Funds						
Unit holders' funds at the beginning of the period		213,830,716	121,781,476	85,528,677	52,840,225	-
Total comprehensive income attributable to unit holders		12,980,295	12,410,423	6,968,266	4,880,549	45,278
Contributions during the period		97,085,285	119,683,058	64,584,948	44,310,170	1,586,523
Withdrawals during the period		(44,863,437)	(31,743,709)	(16,239,179)	(13,625,593)	(23,373)
Unit holder attributed taxation	15	(25,718)	(70,532)	(308)	(7,704)	5
Distributions	14	(8,465,000)	(8,230,000)	(3,076,793)	(2,868,970)	(41,492)
Unit holders' funds at the end of the period		270,542,141	213,830,716	137,765,611	85,528,677	1,566,941
Units on Issue		Number	Number	Number	Number	Number
Units on issue at the beginning of the period		204,948,384	119,715,905	80,314,982	51,169,227	-
Contributions during the period		91,760,419	116,037,636	59,225,206	42,136,981	1,587,363
Withdrawals during the period		(42,474,702)	(30,805,157)	(14,952,124)	(12,991,226)	(23,147)
Units on issue at the end of the period	14	254,234,101	204,948,384	124,588,064	80,314,982	1,564,216

The Notes to the Financial Statements set out on pages 6 to 15 should be read in conjunction with these statements of changes in unit holders' funds.

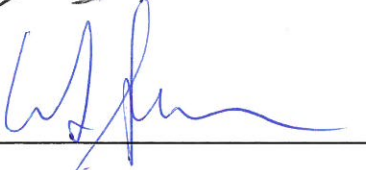
**HARBOUR NZ FIXED INTEREST FUNDS (RETAIL UNIT TRUSTS)
STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2016**

	Note	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
		2016 \$	2015 \$	2016 \$	2015 \$	2016 \$
Unit Holders' Funds		270,542,141	213,830,716	137,765,611	85,528,677	1,566,941
<i>Represented by:</i>						
Assets						
Cash and cash equivalents		5,658,823	14,414,067	39,338	51,806	501
Trade and other receivables	8	558,830	128,468	111,471	59,758	34,650
Trade and other receivables from related parties	11	-	-	38,906	25,082	1,771
Unit holder attributed taxation receivable	15	9,725	-	4,989	-	20
Financial assets at fair value through profit or loss	10	264,738,188	200,629,785	137,887,999	85,591,013	1,532,303
Total Assets		270,965,566	215,172,320	138,082,703	85,727,659	1,569,245
Liabilities						
Trade and other payables	9	26,717	1,015,019	122,495	65,940	78
Trade and other payables to related parties	11	396,708	315,023	194,597	125,488	2,226
Unit holder attributed taxation payable	15	-	11,562	-	7,554	-
Total Liabilities		423,425	1,341,604	317,092	198,982	2,304
Net Assets Attributable to Unit Holders		270,542,141	213,830,716	137,765,611	85,528,677	1,566,941

These Financial Statements were authorised for issue by the Manager, Harbour Asset Management Limited.

Director 

Date 14-10-16

Director 

Date 14-10-16

The Notes to the Financial Statements set out on pages 6 to 15 should be read in conjunction with these statements of financial position.

**HARBOUR NZ FIXED INTEREST FUNDS (RETAIL UNIT TRUSTS)
STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2016**

	Note	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
		2016 12 Months \$	2015 12 Months \$	2016 12 Months \$	2015 12 Months \$	2016 10 Months \$
Cash flows from Operating Activities						
Cash was provided from:						
Sale of investments		115,376,513	146,286,061	7,288,981	10,615,035	151,209
Interest income		10,965,714	8,563,645	1,434	1,787	36
Dividend income		10,648	112,617	-	-	-
Other income		27,725	13,374	-	-	-
Cash was applied to:						
Purchase of investments		(176,908,737)	(222,060,103)	(52,019,849)	(38,657,230)	(1,636,800)
Expenses		(1,467,271)	(1,020,862)	(487,447)	(323,763)	(937)
Net cash used in operating activities	12	(51,995,408)	(68,105,268)	(45,216,881)	(28,364,171)	(1,486,492)
Cash flows from Financing Activities						
Cash was provided from:						
Contributions from unit holders		75,171,277	116,773,695	63,705,425	44,711,812	1,538,954
Cash was applied to:						
Withdrawals by unit holders		(26,473,550)	(31,789,379)	(15,546,843)	(13,627,445)	(23,373)
Unit holder attributed taxation	15	(47,005)	(71,500)	(12,851)	(1,492)	(15)
Distributions to unit holders	14	(5,410,558)	(5,275,741)	(2,941,318)	(2,713,811)	(28,573)
Net cash from financing activities		43,240,164	79,637,075	45,204,413	28,369,064	1,486,993
Net (decrease)/increase in cash and cash equivalents		(8,755,244)	11,531,807	(12,468)	4,893	501
Cash and cash equivalents at the beginning of the period						
		14,414,067	2,882,260	51,806	46,913	-
Cash and cash equivalents at the end of the period		5,658,823	14,414,067	39,338	51,806	501

The Notes to the Financial Statements set out on pages 6 to 15 should be read in conjunction with these statements of cash flows.

HARBOUR NZ FIXED INTEREST FUNDS (RETAIL UNIT TRUSTS) NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2016

1. General Information

The reporting entities are the Harbour NZ Corporate Bond Fund, the Harbour NZ Core Fixed Interest Fund (Retail Unit Trust) and the Harbour Income Fund (Retail Unit Trust) ("the Funds"). The Funds are unit trusts registered under the Unit Trusts Act 1960. The Funds were established on 22 January 2009, 3 May 2011 and 14 September 2015 respectively, and are domiciled in New Zealand. The Funds' registered office is Level 16, 171 Featherston Street, Wellington.

The Harbour NZ Core Fixed Interest Fund (Retail Unit Trust) and the Harbour Income Fund (Retail Unit Trust) are governed by the Master Trust Deed dated 25 March 2010 between Harbour Asset Management Limited ("the Manager"), and Trustees Executors Limited ("the Trustee"). The Harbour NZ Corporate Bond Fund is governed by a separate Master Trust Deed between the Manager and the Trustee dated 5 July 2005. The Funds are issuers as defined by the Financial Markets Conduct Act 2013 ("FMCA") and are for-profit entities.

The principal activity of the Funds are described below:

- (a) The Harbour NZ Corporate Bond Fund invests primarily in the New Zealand debt market (including preference shares).
- (b) The Harbour NZ Core Fixed Interest Fund (Retail Unit Trust) invests primarily in the Harbour NZ Core Fixed Interest Fund (Wholesale Unit Trust). The principal activity of the Harbour NZ Core Fixed Interest Fund (Wholesale Unit Trust) is investment in predominantly the New Zealand debt market (including preference shares), as well as international bonds.
- (c) The Harbour Income Fund (Retail Unit Trust) invests primarily in the Harbour NZ Corporate Bond Fund and the Harbour Australasian Equity Income Fund (Wholesale Unit Trust). The principal activity of the Harbour NZ Corporate Bond Fund is investment in the New Zealand debt market (including preference shares) and the principal activity of the Harbour Australasian Equity Income Fund (Wholesale Unit Trust) is investment in the Australasian equity market as well as in cash and fixed interest securities.

The financial statements for the Harbour NZ Corporate Bond Fund and the Harbour NZ Core Fixed Interest Fund (Retail Unit Trust) cover the year ended 30 June 2016 and comparatives for the year ended 30 June 2015. The financial statements for the Harbour Income Fund (Retail Unit Trust) cover the ten month period to 30 June 2016 with no comparatives.

2. Summary of Accounting Policies

i Statutory Base

The financial statements have been prepared in accordance with the requirements of the Trust Deed.

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 of the Funds 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 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.

iii Investment Entity

The Harbour NZ Core Fixed Interest Fund (Retail Unit Trust) has a direct investment in the Harbour NZ Core Fixed Interest Fund (Wholesale Unit Trust) and the Harbour Income Fund (Retail Unit Trust) has direct investments in the Harbour NZ Corporate Bond Fund and the Harbour Australasian Equity Income Fund (Wholesale Unit Trust).

The Funds meet the definition of investment entities 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 and investment income.
- (c) The performance of investments is measured and evaluated on a fair value basis.

The Funds also display all four typical characteristics that are associated with an investment entity:

- the Harbour NZ Corporate Bond Fund and the Harbour Income Fund (Retail Unit Trust) have multiple investments. The Harbour NZ Core Fixed Interest Fund (Retail Unit Trust) does not have multiple investments but for the purpose of its considerations, the Manager looks through to the underlying investments in the Harbour NZ Core Fixed Interest Fund (Wholesale Unit Trust) which was formed primarily to provide investment management services to the Fund. The Fund effects multiple investments through the Harbour NZ Core Fixed Interest Fund (Wholesale Unit Trust);
- the Funds have more than one investor;
- the Funds have investors that are not related parties;
- ownership interests in the Funds are represented by units in the 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.

**HARBOUR NZ FIXED INTEREST FUNDS (RETAIL UNIT TRUSTS)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016**

2. Summary of Accounting Policies (continued)

v Financial Assets Held at Fair Value Through Profit or Loss

Financial assets and liabilities held at fair value through profit or loss comprise debt securities, preference shares and unlisted Portfolio Investment Entities ("PIEs").

(a) Classification

Designated financial assets at fair value through profit or loss

The Funds classify their investment in debt securities, preference shares and unlisted PIEs 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 make 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.

(b) Recognition

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 held for trading and 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. Subsequent to initial recognition, all financial assets and liabilities held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statements of comprehensive income.

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 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 the bid-ask spread, the bid price is used to value the financial asset or liability.

Fair value of financial assets and liabilities that are not actively traded

The fair value of financial instruments that are not actively traded on an exchange are determined using valuation techniques. These include certain bonds, swaps and forward foreign exchange contracts. Valuation techniques include benchmark models, net present value techniques, comparison to similar instruments for which market observable prices exist and valuation models.

Fair value of 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 are derecognised upon maturity or disposal of the asset. Any gain or loss arising on derecognition of the asset is recognised in the statements of comprehensive income in the period 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.

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. Financial assets are priced at last sale prices.

Level two - fair value in an inactive or unquoted 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 Harbour NZ Core Fixed Interest Fund (Retail Unit Trust) and Harbour Income Fund (Retail Unit Trust)'s investments in the Harbour NZ Core Fixed Interest Fund (Wholesale Unit Trust), the Harbour NZ Corporate Bond Fund and the Harbour Australasian Equity Income Fund (Wholesale Unit Trust) are subject to the terms and conditions of the respective Trust Deeds. The investments are valued at fair value which is based on the latest available redemption prices of the units. The Manager reviews the details of the reported information obtained from the investments and considers:

- (a) the liquidity of the Fund's holding or its underlying investments;
- (b) the value date of the net asset values ("NAVs") 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 and cash equivalents' 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 indication of impairment. Sales of securities and investments which are unsettled at balance date are included in receivables.

viii Revenue Recognition

- (a) Dividend income is recognised in the statements of comprehensive income when the Funds' right to receive payment is established.
- (b) Interest income is recognised as the interest accrues using the effective interest rate method. Interest income is earned on the short term deposits held at the bank and on debt securities (bonds).
- (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 statements of comprehensive income.
- (e) Interest income is disclosed net of any resident withholding taxes deducted at source, these tax credits are allocated to unit holders under the PIE regime.
- (f) Other income is recognised in the statements of comprehensive income when the Funds' right to receive payment is established.

**HARBOUR NZ FIXED INTEREST FUNDS (RETAIL UNIT TRUSTS)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016**

2. Summary of Accounting Policies (continued)

ix Expenses

Expenses comprise brokerage fees, management fees, trustee fees, custody and accounting fees, registry fees, audit fees, legal fees, tax consultancy 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"). 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 Fund, the aggregate value of the investments and other assets, less any liabilities, of the Fund, as determined by the Manager in accordance with the Trust Deed, but before deducting any liabilities in respect of any charges or expenses as set out in the Trust Deed.

x Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and short term deposits with an original maturity of three months 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 Fund. 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.

Unit holders' funds have been adjusted to reflect the impact of tax on the value of unit holdings.

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.

xiii Trade and Other Payables

Trade and other payables include liabilities and accrued expenses owed by the Funds that are unpaid at balance date. Trades are recorded on trade date, and normally settled within two business days. Purchases of securities and 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 Deed, the Trustee 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 investors.

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 application or redemption.

xvii Unit Holders' Funds

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

- (a) it entitles the unit holder 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; and
- (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 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 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 Fund.

**HARBOUR NZ FIXED INTEREST FUNDS (RETAIL UNIT TRUSTS)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016**

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 upon initial recognition. This policy has a significant impact on the amounts disclosed in the financial statements.

An area that involves a higher degree of judgement and complexity, and where the risk of misstatement in the compilation of the financial statements is significant is the valuation of some debt securities as set out in Note 10 (below). The fair value of some of these debt securities is determined using a valuation technique. The valuation technique, whilst using direct market data wherever possible, includes assessments of risk by third parties that deal in corporate bonds, that may to some extent be subjective.

The Manager has also made an estimate in relation to the PIE tax receivable from or payable to the Inland Revenue at period end. The estimate of the PIE tax receivable or payable was calculated based on an applied Prescribed Investor Rate ("PIR") during the period, 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 period. 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 15 (below).

	Note	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
		2016 12 months \$	2015 12 months \$	2016 12 months \$	2015 12 months \$	2016 10 Months \$
4. Interest Income						
Interest on cash and cash equivalents		271,480	404,180	1,434	1,686	36
Interest income from financial assets and liabilities at fair value through profit or loss - designated		11,011,294	8,955,655	-	-	-
Total interest income		11,282,774	9,359,835	1,434	1,686	36
5. Other Income						
Management fee rebates	11	-	-	127,480	85,997	3,223
Brokerage rebates		27,725	13,374	-	-	-
Total other income		27,725	13,374	127,480	85,997	3,223
6. Other Expenses						
Custody fees	11	3,717	4,848	2,253	2,438	470
Sundry expenses		55,377	29,519	27,233	11,955	142
Total other expenses		59,094	34,367	29,486	14,393	612
7. Net Gains on Financial Assets at Fair Value through Profit or Loss						
<i>Fair value through profit or loss - Designated</i>						
NZ preference shares and other perpetual securities		(2,088)	170,169	-	-	-
NZ government bonds		543,660	274,335	-	-	-
NZ local authority bonds		954,141	585,169	-	-	-
Other NZ corporate bonds		1,718,187	3,079,782	-	-	-
NZ unitised PIE funds		-	-	4,437,613	2,377,814	17,944
Net gains in fair value of financial assets at fair value through profit or loss		3,213,900	4,109,455	4,437,613	2,377,814	17,944
8. Trade and Other Receivables						
Interest receivable		48,587	36,382	-	-	-
Contributions receivable		510,243	34,661	111,471	59,758	34,650
Receivable for sale of investments		-	57,425	-	-	-
Total trade and other receivables		558,830	128,468	111,471	59,758	34,650
All trade and other receivable balances are current assets. Trade and other receivables are classified as loans and receivables under NZ IAS 39.						
9. Trade and Other Payables						
Sundry expenses payable		18,728	12,932	11,024	6,182	78
Investment purchases payable		-	1,000,000	111,471	59,758	-
Withdrawals payable		7,989	2,087	-	-	-
Total trade and other payables		26,717	1,015,019	122,495	65,940	78
All trade and other payables are current liabilities. Trade and other payables are classified as financial liabilities at amortised cost under NZ IAS 39.						

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Note	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
	2016	2015	2016	2015	2016
	\$	\$	\$	\$	\$
10. Financial Assets at Fair Value through Profit or Loss					
<i>Financial assets at fair value through profit or loss - Designated</i>					
NZ term deposits	2,254,575	2,176,521	-	-	-
NZ discounted securities	-	2,999,466	-	-	-
NZ preference shares & other perpetual securities	-	1,352,390	-	-	-
NZ government bonds	24,411,843	3,231,331	-	-	-
NZ local authority bonds	38,841,519	36,615,134	-	-	-
NZ corporate bonds	199,230,251	154,254,943	-	-	-
NZ unithised PIE funds	11	-	137,887,999	85,591,013	1,532,303
Financial assets at fair value through profit or loss	264,738,188	200,629,785	137,887,999	85,591,013	1,532,303

Assets designated at fair value through profit or loss comprising of New Zealand debt securities have been valued in one of two ways. The first method uses quoted market prices in an active market which is a measurement basis which falls within Level One of the fair value hierarchy. The second method calculates the fair value by using a discounted cash flow calculation based on risk margins and swap yields provided by third party suppliers of financial data. This measurement basis falls within Level Two of the fair value hierarchy as all inputs used to calculate the fair value are based on observable market data. For term deposits, the carrying value approximates fair value.

The fair value of New Zealand unithised PIE Funds is determined using the redemption price, based on the valuation of its underlying investments, as supplied by the Manager on a daily basis. This measurement basis falls within Level Two of the fair value hierarchy as all significant inputs used to calculate the fair value are based on observable market data.

The following table sets out the financial assets (by class) measured at fair value according to the fair value hierarchy:

	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
	2016	2015	2016	2015	2016
	\$	\$	\$	\$	\$
Level One					
NZ preference shares and other perpetual securities	-	1,352,390	-	-	-
NZ Government bonds	24,411,843	3,231,331	-	-	-
NZ corporate bonds	8,253,571	22,164,545	-	-	-
Level Two					
NZ term deposits	2,254,575	2,176,521	-	-	-
NZ discounted securities	-	2,999,466	-	-	-
NZ local authority bonds	38,841,519	36,615,134	-	-	-
NZ corporate bonds	190,976,680	132,090,398	-	-	-
NZ unithised PIE funds	-	-	137,887,999	85,591,013	1,532,303
	264,738,188	200,629,785	137,887,999	85,591,013	1,532,303

There were no transfers between levels during the period (2015: nil). A list of investments as at 30 June 2016 is detailed in Note 20.

11. Related Party Information

(a) Manager and Trustee

The Manager of the Funds is Harbour Asset Management Limited. The Manager is entitled to a management fee of 0.60% per annum (plus GST) of the gross asset value ("GAV") of the Harbour NZ Corporate Bond Fund and the Harbour NZ Core Fixed Interest Fund and 0.65% per annum (plus GST) of the Harbour Income Fund (Retail Unit Trust). This is accrued on the daily value of the Funds' assets and is paid quarterly in arrears.

The Harbour NZ Core Fixed Interest Fund (Retail Unit Trust) is entitled to a fee rebate of 0.12% per annum (plus GST) from the Manager in respect of its investment in the Harbour NZ Core Fixed Interest Fund (Wholesale Unit Trust). The Harbour Income Fund (Retail Unit Trust) is entitled to fee rebates of 0.52% per annum (plus GST) from the Manager in respect of its investments in the Harbour NZ Corporate Bond Fund and the Harbour Australasian Equity Income Fund (Wholesale Unit Trust). Management fee rebates are paid by the underlying investments in order to fully, or partially, offset the reduction in unit price that occurs as the Manager's fee is accrued for the underlying investments.

Trustees Executors Limited is the Trustee of the Funds. It also undertakes the registry, custody and accounting functions. These fees are included in the management fee and paid by the Manager except for custody transaction fees which are included in other expenses in the statements of comprehensive income.

Audit, registry compliance and trustee reporting fees are paid to PricewaterhouseCoopers by the Manager and recovered from the Harbour NZ Corporate Bond Fund (Retail Unit Trust) and the Harbour NZ Core Fixed Interest Fund (Retail Unit Trust). The Manager has not recovered the fees from the Harbour Income Fund (Retail Unit Trust) for the period to 30 June 2016, however expects to do so in the year to 30 June 2017.

The Manager's and Trustee's fees are provided for in accordance with the Deed of Establishment.

Related party expenses/rebate income for the period ended 30 June were as follows:	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
	2016	2015	2016	2015	2016
	\$	\$	\$	\$	\$
Harbour Asset Management Limited:					
Management fee expense	1,476,239	1,116,334	637,691	430,283	4,081
Management fee recognised in the unit price of the underlying investments	-	-	265,583	179,160	3,602
Management fee rebate income received	-	-	(127,480)	(85,997)	(3,223)
Net Management fee expense	1,476,239	1,116,334	775,794	523,446	4,460
Management fee payable	396,708	315,023	194,597	125,488	2,226
Management fee rebate income receivable	-	-	(38,906)	(25,082)	(1,771)
Trustees Executors Limited:					
Custody transaction fees paid by the Fund	3,717	4,848	2,253	2,438	470
Trustee, registry and custody fees paid by the Manager	175,681	145,786	98,799	78,910	28,438

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11. Related Party Information (continued)

	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
	2016	2015	2016	2015	2016
	\$	\$	\$	\$	\$
<i>(a) Manager and Trustee (continued)</i>					
Expenses paid by the Manager and recovered from the Funds:					
Fees for audit of statutory financial statements	11,694	11,663	7,370	7,057	-
Fees for registry compliance and trustee reporting	507	4,645	507	2,184	-
	12,201	16,308	7,877	9,241	-

Unit holdings and movements in the Funds by the Manager, Directors and staff of the Manager, and their close family members for the period were as follows:

		Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
		2016	2015	2016	2015	2016
		\$	\$	\$	\$	\$
Units		3,587	2,584	14,017	13,868	103
\$		3,817	2,696	15,499	14,768	103
% of the Fund's Net Assets		0.01%	0.01%	0.01%	0.02%	0.01%
Contributions	Units	1,044	2,587	395	537	104
	\$	1,111	2,704	427	565	104
Withdrawals	Units	41	3	246	264	1
	\$	44	3	270	280	1
Distributions	\$	111	54	427	565	4

(b) Transactions with other related parties

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

The Harbour NZ Core Fixed Interest (Retail Unit Trust) Fund and the Harbour Income Fund (Retail Unit Trust) hold units in the Harbour NZ Core Fixed Interest Fund (Wholesale Unit Trust), the Harbour NZ Corporate Bond Fund and the Harbour Australasian Equity Income Fund (Wholesale Unit Trust) who transact with a number of banks and brokerage houses, including First NZ Capital Securities Limited, when purchasing or selling securities. The brokerage fees paid by these funds are reflected in their unit prices.

Brokerage fees paid or payable to First NZ Capital Securities Limited for the period ended 30 June were as follows:

	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
	2016	2015	2016	2015	2016
	\$	\$	\$	\$	\$
Brokerage fee expense	903	462	-	-	-

(c) Investments by the Funds in related parties

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

	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
	2016	2015	2016	2015	2016
Harbour NZ Core Fixed Interest Fund (Wholesale Unit Trust)					
Holding	Units	-	117,251,700	75,966,107	-
	\$	-	137,887,999	85,591,013	-
% of the Fund's Net Assets		-	100.09%	100.07%	-
% of Units on Issue		-	74.13%	71.57%	-
Purchases	Units	-	47,606,495	36,945,155	-
	\$	-	55,148,355	40,971,250	-
Sales	Units	-	6,320,902	9,610,003	-
	\$	-	7,288,981	10,615,035	-
Distributions	\$	-	3,076,793	2,868,969	-
Harbour Australasian Equity Income Fund (Wholesale Unit Trust)					
Holding	Units	-	-	-	230,295
	\$	-	-	-	398,825
% of the Fund's Net Assets		-	-	-	25.45%
% of Units on Issue		-	-	-	0.44%
Purchases	Units	-	-	-	278,774
	\$	-	-	-	469,693
Sales	Units	-	-	-	48,479
	\$	-	-	-	83,553
Distributions	\$	-	-	-	8,566
Harbour NZ Corporate Bond Fund					
Holding	Units	-	-	-	1,065,299
	\$	-	-	-	1,133,478
% of the Fund's Net Assets		-	-	-	72.34%
% of Units on Issue		-	-	-	0.42%
Purchases	Units	-	-	-	1,129,458
	\$	-	-	-	1,195,875
Sales	Units	-	-	-	64,159
	\$	-	-	-	67,657
Distributions	\$	-	-	-	20,202

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11. Related Party Information (continued)

(d) Investments in the Funds by related parties

The following related entities held units in the Funds during the period:

		Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
		2016	2015	2016	2015	2016
Harbour Income Fund (Wholesale Unit Trust)						
Holding	Units	53,074,059	41,578,298	-	-	-
	\$	56,470,799	43,382,796	-	-	-
% of the Fund's Net Assets		20.87%	20.29%	-	-	-
Contributions	Units	15,378,316	40,764,665	-	-	-
	\$	16,255,639	41,846,432	-	-	-
Withdrawals	Units	3,882,555	999,123	-	-	-
	\$	4,091,627	1,031,062	-	-	-
Distributions	\$	1,749,660	1,447,530	-	-	-
Harbour Income Fund (Retail Unit Trust)						
Holding	Units	1,065,299	-	-	-	-
	\$	1,133,478	-	-	-	-
% of the Fund's Net Assets		0.42%	-	-	-	-
Contributions	Units	1,129,458	-	-	-	-
	\$	1,195,875	-	-	-	-
Withdrawals	Units	64,159	-	-	-	-
	\$	67,657	-	-	-	-
Distributions	\$	20,202	-	-	-	-

12. Reconciliation of Net Profit Attributable to Unit Holders to Net Cash Flows from Operating Activities	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
	2016	2015	2016	2015	2016
	\$	\$	\$	\$	\$
Net profit attributable to unit holders	12 months	12 months	12 months	12 months	10 Months
	12,980,295	12,410,423	6,968,266	4,880,549	45,278
Plus non cash items					
Net unrealised changes in the fair value of financial assets through profit or loss	(1,821,018)	(3,911,894)	(4,126,981)	(2,144,993)	(15,729)
Accrued interest	(366,797)	(759,930)	-	-	-
	<u>(2,187,815)</u>	<u>(4,671,824)</u>	<u>(4,126,981)</u>	<u>(2,144,993)</u>	<u>(15,729)</u>
Movements in working capital items					
Decrease/(increase) in trade and other receivables	45,220	(72,918)	-	101	-
Increase in trade and other receivables from related parties	-	-	(13,824)	(9,772)	(1,771)
(Decrease)/increase in trade and other payables	(994,204)	1,012,659	56,555	(549,893)	78
Increase in trade and other payables to related parties	81,685	137,905	69,109	48,873	2,226
Net purchases of investments	(61,920,589)	(76,921,513)	(48,170,006)	(30,589,036)	(1,516,574)
	<u>(62,787,888)</u>	<u>(75,843,867)</u>	<u>(48,058,166)</u>	<u>(31,099,727)</u>	<u>(1,516,041)</u>
Net cash flows used in operating activities	<u>(51,995,408)</u>	<u>(68,105,268)</u>	<u>(45,216,881)</u>	<u>(28,364,171)</u>	<u>(1,486,492)</u>

13. Financial Risk Management

The Funds are subject to a number of financial risks which are as a result of their activities, including: market risk, liquidity risk and credit 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 Funds' 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, risk assessment is not undertaken on a look through basis to the underlying funds.

The Manager uses a research focused philosophy to manage its fixed interest portfolios. It uses this research to drive the active management of its fixed interest portfolios, focusing on the core parts of the New Zealand fixed interest market, with a careful eye for using the most liquid and efficient tools to express its active views in portfolios. The Manager believes there are opportunities to add value in New Zealand fixed income through sound research and active management, exploiting excess return from risk premium and market mispricing, while having a rigorous approach to liquidity management.

The Manager's investment process involves four stages:

1. Research signals

Research is at the heart of the investment process, drawing on the Manager's analysis of structural imbalances, the macroeconomic outlook, and market indicators and intelligence. The process utilises a broad database of economic and market indicators and data time series. These connect to proprietary valuation models which provide a highly influential link into the forecasting process.

2. Yield curve forecasts

At a top-down level, the signals from the research are used to derive forecasts of yield curves for a six month horizon which is used to estimate and rank the projected returns from the main classes of fixed income securities.

3. Liquidity and credit analysis

The Manager then undertakes detailed bottom-up credit and liquidity analysis, including transaction costs. The Manager believes liquidity analysis is an essential part of its investment process, not only to manage liquidity risk, but to remain cautious and be ready to take opportunities when they arise, and to maximise alpha (return over the benchmark) after transaction costs.

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13. Financial Risk Management (continued)

4. Portfolio construction

The final stage in the process brings together all the layers of research and forecasts, to construct the best possible portfolio given the Funds' investment objectives and portfolio guidelines.

Market Risk

(i) Price Risk

Price risk is the risk that the value of a security will fluctuate because of changes in market prices. This change could be due to factors specific to an issuer or factors affecting all similar financial instruments traded in the market. All unlisted PIE 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 security selection, diversification, daily monitoring of the Funds' market position and adherence to the Funds' investment policies.

The maximum market risk resulting from financial instruments is determined by their fair value.

Sensitivity analysis

The table below shows the impact on net profit attributable to unit holders and unit holders' funds if unlisted unit prices at balance date had been 10% higher/lower with all other variables held constant.

	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
	2016	2015	2016	2015	2016
	\$	\$	\$	\$	\$
Financial assets at fair value through profit or loss					
NZ Unlisted PIE funds	-	-	137,887,999	85,591,013	1,532,303
Impact of a -10% change in unit prices	-	-	(13,788,800)	(8,559,101)	(153,230)
Impact of a +10% change in unit prices	-	-	13,788,800	8,559,101	153,230

(ii) Interest Rate Risk

Interest rate risk captures the change in the value of a security that pays a fixed rate coupon, where the change in value is driven by a change in market interest rates. The Manager uses modified duration, which captures the weighted average time-to-maturity of all coupons and principal. Duration can be measured for a security and across a portfolio of securities. This risk is managed as part of its investment process, whereby the Manager targets a duration level that may be longer or shorter than the duration of the Funds' benchmark duration, based on the Manager's view on the expected change in interest rates over the investment horizon.

Financial instruments which potentially subject the Funds to interest rate risk are cash and cash equivalents, debt securities, preference shares and other perpetual securities. The Manager may economically hedge the exposure to interest fluctuations.

	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
	2016	2015	2016	2015	2016
	\$	\$	\$	\$	\$
The fair value of investments, based on contractual maturity dates, are presented in the table below:					
Current	5,658,823	14,414,067	39,338	51,806	501
0-1 years	20,638,072	12,435,220	-	-	-
1-2 years	30,132,553	16,625,105	-	-	-
2-5 years	167,644,414	134,642,178	-	-	-
5+ years	46,323,149	36,927,282	-	-	-

Sensitivity Analysis

The Funds' sensitivity to interest rate risk varies according to the instrument held. The Funds' sensitivity to interest rate risk can be expressed in two ways:

(a) Cash Flow Sensitivity Analysis

A change in interest rates impacts the cash flow of the Funds' cash and cash equivalents, floating rate bonds and term deposits by increasing or decreasing the amount of interest received. The table below shows the impact on net profit attributable to unit holders and unit holders' funds if interest rates at balance date had been 100 basis points (1.0%) higher/lower with all other variables held constant:

		Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
		2016	2015	2016	2015	2016
		\$	\$	\$	\$	\$
Cash and cash equivalents	Carrying Amount	5,658,823	14,414,067	39,338	51,806	501
	Impact of a -1% change in interest rates	(56,588)	(144,141)	(393)	(518)	(5)
	Impact of a +1% change in interest rates	56,588	144,141	393	518	5
Bonds - floating rate	Carrying Amount	19,952,711	15,359,800	-	-	-
	Impact of a -1% change in interest rates	(199,527)	(153,598)	-	-	-
	Impact of a +1% change in interest rates	199,527	153,598	-	-	-
NZ Term deposits	Carrying amount	2,254,575	2,176,521	-	-	-
	Impact of a -1% change in interest rates	(22,546)	(21,765)	-	-	-
	Impact of a +1% change in interest rates	22,546	21,765	-	-	-

(b) Fair Value Sensitivity Analysis

A change in interest rates impacts the fair value of the Fund's discounted securities, preference shares and other perpetual securities, government bonds, local authority bonds, and other corporate bonds. Fair value changes impact on profit or loss before tax, or unit holders' funds, only where the instruments are carried at fair value. The table below shows the impact on net profit attributable to unit holders and unit holder's funds if bond and swap yields at balance date were 100 basis points (1.0%) higher/lower, with all other variables held constant:

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13. Financial Risk Management (continued)		Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund	
		2016	2015	2016	2015	2016	2016
Market Risk (continued)		\$	\$	\$	\$	\$	\$
(ii) Interest Rate Risk (continued)							
<i>(b) Fair Value Sensitivity Analysis</i>							
Financial assets at fair value through profit or loss							
NZ Preference shares and other perpetual securities	Carrying amount	-	1,352,390	-	-	-	-
Impact of a -1% change in yields		-	-	-	-	-	-
Impact of a +1% change in yields		-	-	-	-	-	-
NZ Government bonds	Carrying amount	24,411,843	3,231,331	-	-	-	-
Impact of a -1% change in yields		767,358	75,022	-	-	-	-
Impact of a +1% change in yields		(767,358)	(75,022)	-	-	-	-
NZ Local authority bonds	Carrying amount	37,100,609	36,615,134	-	-	-	-
Impact of a -1% change in yields		1,578,605	1,618,029	-	-	-	-
Impact of a +1% change in yields		(1,578,605)	(1,618,029)	-	-	-	-
NZ corporate bonds	Carrying amount	181,018,450	138,895,143	-	-	-	-
Impact of a -1% change in yields		5,395,099	4,745,836	-	-	-	-
Impact of a +1% change in yields		(5,395,099)	(4,745,836)	-	-	-	-
NZ discounted securities	Carrying Amount	-	2,999,466	-	-	-	-
Impact of a -1% change in yields		-	164	-	-	-	-
Impact of a +1% change in yields		-	(164)	-	-	-	-

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. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate. Liquidity and cash flow 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 Fund. The Manager manages this risk in a combination of ways. It holds a minimum weighting of "highly liquid securities" which includes cash, New Zealand Government Stock with less than five years to maturity and short term commercial paper with an A-1+ credit rating. The Manager considers the expected liquidity of a security under stressed market conditions before purchase, and captures all securities in a liquidity ranking scale, which enables it to measure the overall expected liquidity of the portfolio. 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.

Credit Risk

Credit risk is the risk that the issuer of a security that the Funds have purchased does not pay all principal and coupon payments on time and in full. The Manager manages this risk using credit analysis and by constraining the exposure limits it allows to an issuer based on the issuer's credit rating. Measurement is based on the market value of securities held as a percentage of the Funds' total assets. The Manager also measure the Funds' overall exposure to all issuers, including banks, local authorities, corporates and other entities, breaking exposure into ratings levels, sectors maturities and the seniority of securities relative to other debt of the issuer.

Financial instruments that subject the Funds to credit risk consist primarily of cash and cash equivalents, debt securities, preference shares, perpetual bonds and trade and other receivables.

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. The Funds do not have collateral or other security to support financial instruments with credit risk.

(i) Credit Quality

The Funds invest predominantly in investment grade fixed interest investments. The table below sets out the equivalent Standard & Poor's credit ratings for cash and cash equivalents and interest bearing investments designated at fair value through profit or loss.

Rating Category	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund	
	2016	2015	2016	2015	2016	2016
	\$	\$	\$	\$	\$	\$
Short Term						
Cash and cash equivalents	A-1+	5,658,823	14,414,067	39,338	51,806	501
NZ discounted securities	A-1+	-	2,999,466	-	-	-
NZ term deposits	A-1	2,254,575	2,176,521	-	-	-
Bonds						
	AAA	27,105,116	22,944,683	-	-	-
	AA+	49,300,740	29,033,289	-	-	-
	AA	12,211,712	13,960,683	-	-	-
	AA-	95,618,734	69,520,825	-	-	-
	A+	12,049,068	10,437,792	-	-	-
	A	1,732,809	7,857,142	-	-	-
	A-	25,345,460	15,803,640	-	-	-
	BBB+, BBB and BBB-	29,151,685	17,967,955	-	-	-
	Not Rated	9,968,289	7,927,789	-	-	-
		270,397,011	215,043,852	39,338	51,806	501

Various New Zealand corporate bonds and discounted securities were unrated at balance date. The Manager undertakes its own analysis of the credit-worthiness of issuers of unrated securities and will only invest in securities that it considers would qualify for an investment grade or higher rating if these securities were actually rated. At balance date there were no financial assets past due or impaired (2015: nil).

**HARBOUR NZ FIXED INTEREST FUNDS (RETAIL UNIT TRUSTS)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016**

13. Financial Risk Management (continued)

**Credit Risk
(ii) Credit Exposure**

The Funds' maximum exposure to credit risk at balance date in relation to each class of recognised asset is the carrying amount of those assets as indicated in the statements of financial position. There is no material exposure of greater than 10% of net assets to any one counterparty with the exception of the following:

		Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
		2016	2015	2016	2015	2016
ANZ Bank	Fair Value \$	21,167,074	27,887,381	-	-	-
	Net Assets %	7.82%	13.04%	-	-	-

14. 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 NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
		2016	2015	2016	2015	2016
Equity	\$	270,542,141	213,830,716	137,765,611	85,528,677	1,566,941
Units	Number	254,234,101	204,948,384	124,588,064	80,314,982	1,564,216

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 redemption of units if the Manager believes it is not practical or desirable or would be prejudicial to the interests of the unit holders for units to be redeemed.

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 investors.

The Funds made the following distributions during the period ended 30 June:

		Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
		2016	2015	2016	2015	2016
Distributions	Cash	\$ 5,410,558	\$ 5,275,741	\$ 2,941,318	\$ 2,713,811	\$ 28,573
	Reinvested	3,054,442	2,954,259	135,475	155,159	12,919
		<u>8,465,000</u>	<u>8,230,000</u>	<u>3,076,793</u>	<u>2,868,970</u>	<u>41,492</u>

15. Tax Attributable to Unit Holders

Unit holders tax payments and refunds are settled with the Inland Revenue via the cancellation and issue of units in the Funds. In addition, imputation credits were used to reduce unit holders' tax liabilities.

	Harbour NZ Corporate Bond Fund		Harbour NZ Core Fixed Interest Fund		Harbour Income Fund
	2016	2015	2016	2015	2016
Accrued unit holder attributed tax at beginning of the period	\$ 11,562	\$ 12,530	\$ 7,554	\$ 1,342	\$ -
Accrued unit holder attributed tax receivable/(payable) at balance date	9,725	(11,562)	4,989	(7,554)	20
Unit holder attributed tax paid during the year	(47,005)	(71,500)	(12,851)	(1,492)	(15)
Unit holder attributed tax for the period	<u>(25,718)</u>	<u>(70,532)</u>	<u>(308)</u>	<u>(7,704)</u>	<u>5</u>

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

16. 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 deeds require 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).

17. Contingent Liabilities

There were no significant contingent liabilities for either fund as at 30 June 2016 (2015: nil).

18. Capital Commitments

There were no significant capital commitments for either fund as at 30 June 2016 (2015: nil).

19. Subsequent Events

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

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



Independent Auditors' Report

to the unit holders of the Harbour NZ Fixed Interest Funds (Retail Unit Trusts)

Report on the Financial Statements

We have audited the financial statements of the Harbour NZ Fixed Interest Funds (Retail Unit Trusts), comprised of each of the following Funds:

- Harbour NZ Corporate Bond Fund
- Harbour NZ Core Fixed Interest Fund
- Harbour Income Fund

(the "Funds") on pages 2 to 15, 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/period 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 NZ Fixed Interest Funds (Retail Unit Trusts)

Opinion

In our opinion, the financial statements on pages 2 to 15 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/period 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