

Income Fund

Description of the Fund

The Fund is designed to generate a favourable level of income. The Fund invests predominately in income generating asset classes, such as investment grade fixed interest securities and Australasian equities that pay a sustainable and growing dividend yield.

Investment Objective

The objective is to exceed the Official Cash Rate (OCR) plus 3.5% pa over rolling three year periods.

Benchmark

A composite benchmark composed of indices that reflect the strategic asset allocation of the Fund as follows: 68% S&P/NZX Corporate A-Grade Index; 16% S&P/ASX 200 Industrials Index (100% hedged to NZ dollars); and 16% S&P/NZX Portfolio Index.

Distribution

Quarterly distributions are paid at the fixed rate of 1.25 Cents per unit. This may be adjusted by us.

Investment Style

The Fund will invest in a range of fixed income and equity securities that are compatible with generating a favourable level of income through different economic environments. Returns will be predominately driven by the mix of New Zealand fixed interest securities and dividend-paying Australasian equities. To enhance expected returns and manage risk, the Fund will be actively managed drawing on Harbour research resources. Diversification is a key technique used to reduce the volatility of investment returns. The Fund also seeks to reduce exposures when we identify significant downside risks. The Fund has a medium-term investment horizon.

Benchmark Allocations

The benchmark asset allocation is our intended long-term allocation to each asset class in the Fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change and if we pursue tactical investment opportunities.

Asset Class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	8%	5-40%
NZ Fixed interest	50%	20-90%
International Fixed Interest	10%	0-30%
Australasian equities	32%	0-40%
International equities	0%	0-20%

Authorised Investments

- 1.1. Cash and short duration fixed interest assets.
- 1.2. New Zealand Fixed interest securities, predominately New Zealand investment grade corporate bonds. New Zealand Government bonds, Local Authority bonds, and other NZ dollar denominated bonds are also permitted.
- 1.3. International fixed interest.

- 1.4. Other income generating assets, such as non-investment grade corporate bonds, loans, loan products, asset-backed securities, preference shares, and securities that qualify as Tier 1 or Tier 2 capital for registered banks.
- 1.5. Listed New Zealand & Australian equities.
- 1.6. Listed international equities.
- 1.7. Derivative contracts, where the underlying risk relates to interest rate, foreign currency, equity or credit risk.

Investment Guidelines

Asset Class	Neutral allocation (%)	Range (%)
Cash and cash equivalents	8%	5-40%
Investment grade fixed interest	40%	20-90%
Non-investment grade fixed interest	5%	0-20%
Loans	15%	0-30%
Australasian equity income	27%	0-40%
Australasian equity focus	5%	0-15%
International equity income	0%	0-20%
<i>Total loans and non-investment grade fixed interest</i>		<i>Maximum 30%</i>
<i>Total equities</i>		<i>Maximum 40%</i>

Liquidity: A minimum of 5% of the Fund will be held in Highly Liquid Securities, defined as New Zealand Government securities with less than 5 years maturity, cash, and other cash equivalents.

Duration: The Fund's neutral modified duration for fixed interest securities in the portfolio will be 4 years. The allowable range of portfolio duration will be from - 2 years to + 8 years.

Currency management: The neutral foreign exchange position of the Fund is 100% hedged to NZD. The allowable range of currency exposure to the Australian dollar is +/- 10%. The allowable range of currency exposure to the currencies in the New Zealand Trade Weighted Index (TWI) basket is +/- 10% in aggregate.

International fixed interest: A maximum of 30% exposure to international fixed interest, including investment grade fixed interest, non-investment grade fixed interest and loans.

Derivatives: The calculation of duration, currency, credit and equity exposures will include the effective exposure from any derivatives in the Fund.

Counterparty exposures: Over-the-counter derivative contracts must be entered with a counterparty with a minimum long-term credit rating of A at Standard & Poor's and a current ISDA agreement must be in place between the counterparty and the Fund or us.

Leverage: The effective exposure of equity and corporate credit must not result in the Fund being levered with regards to equity and credit risk. The effective fixed interest exposure of Fund will not be considered to be leveraged if the portfolio duration is within the permitted range for the Fund.

External management: Harbour may appoint external managers to oversee up to 30% of the Net Asset Value of the Fund. These underlying holdings will be captured within the overall investment guidelines of the Fund.