

Hunter Investment Funds Climate Statements

30 June 2024



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Introduction

About this report

This report is the first climate-related disclosure (CRD) document for the Scheme prepared in accordance with the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 and the associated External Reporting Board (XRB) Climate Standards, CS 1 – 3. This document builds on the climate disclosure Harbour has been voluntarily reporting through various channels such as our annual sustainability report and represents an evolution of integrating climate considerations into our responsible investment approach and broader investment process.

Scope

The Hunter Investments Funds (“Scheme”) is a managed investment scheme. The Scheme offers one single sector investment fund, the Hunter Global Fixed Interest Fund, which provides investors with exposure to international fixed interest (hedged to New Zealand Dollars).

The Hunter Global Fixed Interest Fund, or any underlying investment portfolio of the Hunter Global Fixed Interest Fund is actively managed. The Hunter Global Fixed Interest Fund may invest in direct securities (including derivatives) or through other managed investment schemes.

Harbour Asset Managed Limited (‘Harbour’) is the licensed manager of the registered Scheme under the Financial Markets Conduct (FMC) Act. PIMCO Australia Pty Ltd has been appointed as the underlying specialist investment manager for the Hunter Global Fixed Interest Fund. Further details on the roles and responsibilities are provided in the Governance section of this report.

The CRD is provided to inform readers but does not take into account any circumstances of the reader, nor should it be regarded as financial advice or earnings guidance, nor is it audited. As a result, readers should make their own assessments and not place undue reliance on this CRD.

This CRD contains statements that are, or may be deemed to be, forward-looking statements, including climate-related related risks, and opportunities.

Many of the assumptions, standards, metrics, and measurements used in preparing this CRD continue to evolve and are based on assumptions believed to be reasonable at the time of preparation but should not be considered guarantees. The measures and forward-looking statements in this CRD reflect Harbour’s best estimates, assumptions, and judgements as at the date of the CRD. Certain statements made in this CRD including in relation to climate-related scenario analysis and risk assessment use a greater number and level of assumptions and estimates and are over longer time frames than many other disclosures. These assumptions and estimates are highly likely to change over time.

Important note

On the 30th April 2024, Harbour became part of a group of investment and advisory businesses ultimately owned by FirstCape Group Limited (FirstCape). FirstCape is jointly owned by interests associated with National Australia Bank Limited (NAB), Jarden Wealth and Asset Management Holdings Limited (Jarden) and Pacific Equity Partners (PEP). NAB is a licensed bank in Australia and is the parent company of BNZ. Following the end of the reporting period, some FirstCape staff participated in an employee share scheme, entitling them to equity interests in FirstCape.



Statement of Compliance

The following adoption provisions have been applied in preparation of these Climate Statements:

- **Adoption Provision 1** – Current financial impacts: exemption from disclosing the financial impacts of the current physical and transition impacts identified in the first reporting period.
- **Adoption Provision 2** – Anticipated financial impacts: exemption from disclosing the financial impacts of the anticipated physical and transition risks and opportunities identified in the first reporting period.
- **Adoption Provision 3** – Transition planning: exemption from disclosing the transition plan aspects of the Fund in the Scheme as well as the alignment of these aspects with internal capital deployment and funding decision making processes in the first reporting period.
- **Adoption Provision 6** – Comparatives for metrics: exemption from disclosing comparative information for each metric (with the immediately preceding two reporting periods) in the first reporting period.
- **Adoption Provision 7** – Analysis of trends: exemption from disclosing the main trends from comparative metrics in the first reporting period.

Harbour has used these adoption provisions as permitted by NZ CS 2, in recognition that some disclosure requirements take time to develop the capability of providing high quality information and therefore are exempt from mandatory reporting in the first year. Taking this into account, Harbour has complied with all requirements of the XRB's NZ Climate Standards in preparing and reporting these Climate Statements.

As noted in the Introduction section, many of the assumptions, standards, metrics, and measurements used in preparing this CRD continue to evolve and are based on assumptions believed to be reasonable at the time of preparation but should not be considered guarantees. The measures and forward-looking statements in this CRD reflect Harbour's best estimates, assumptions, and judgements as at the date of the CRD. There are a variety of factors that may contribute to gaps in data coverage, and ambiguity over the quality of data. These factors include (among other things) complexity in data measurement, lack of verifiability or validity of such data, and varying timeliness of data availability.

These Climate Statements have been approved by the Board and authorised for issue on 10 October 2024. They are signed on behalf of the Board by:



Andrew Bascand – Director



Murray Brown – Director

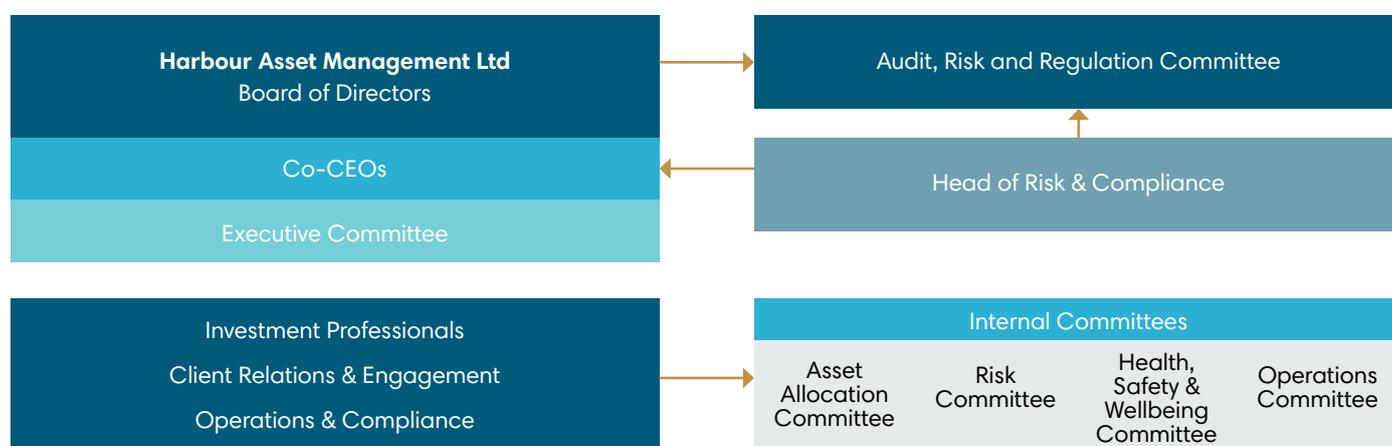


Executive Summary

The information in these climate statements has been presented in a structure aligned with the Aotearoa New Zealand Climate Standards that is based on four key pillars: governance, strategy, risk management and metrics and targets. A short summary of the key disclosures under each of these pillars is provided below.

Governance:

Ownership: FirstCape Group Limited 100%



Harbour is the manager of the Scheme. Harbour's Board of Directors has primary responsibility for the oversight of climate-related risks and opportunities for the Hunter Fund that comprises the Scheme.

The Board utilises the Audit, Risk and Regulation subcommittee (ARRC) to assist in the oversight of climate risks and opportunities, particularly in the approval of regulatory documents. This subcommittee is chaired by one of the independent directors of the Board.

Harbour has appointed PIMCO Australia Pty Ltd (PIMCO) as the underlying specialist investment manager for the Hunter Global Fixed Interest Fund. This means that the responsibility for investing and managing the assets of the Fund is delegated to PIMCO. PIMCO is appointed under an investment management agreement (IMA) which specifies the types of investments (asset classes), prohibited investments (ESG exclusions) and tracking performance against a specified benchmark.

Climate change analysis and integration into the investment process subsequently sits with the Portfolio Manager at PIMCO.



Strategy

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

- Quality research is the backbone of investment outperformance
- Consistency of our investment process.
- Responsible investing; and that
- There is no substitute for experience

Harbour looks for alignment with this philosophy for any external managers it appoints.

The Hunter Fund has a specific investment strategy and objectives managed by PIMCO and offers diversified exposure to international fixed income markets

- Credit spread and rating
 - Devaluation of current bonds could cause credit spreads to widen further
 - Decreased credit quality of the portfolio
- Value at risk (likely to increase under more aggressive physical climate scenarios)
- Liquidity and cash flow
 - Increased probability of default could impact portfolio's expected cash reserve/cash flow
 - Increased difficulty to sell bonds (and at a reduced price)
- Returns
 - Devaluation of portfolio's current bonds
 - Increased yield of future bonds if purchased after yield increased
 - Penalised yield
 - Credit spread deterioration

Risk Management

Harbour uses ESG data provider research to identify and assess the impact of climate-related risks. This is separate and in addition to the climate analysis conducted by PIMCO as the Fund's delegated investment manager.

MSCI's climate value at risk (CvaR) product enables us to measure the portfolio level exposure to physical and transition risks. This calculation involves selecting different global temperature warming scenarios to estimate the value at risk broken down by physical and transition as well as an aggregate exposure.

Key Metrics

- Financed emissions - measures the total absolute emissions financed by investors in the Fund.
- Weighted average carbon intensity - measures the Fund's exposure to carbon intensive companies.

Hunter Global Fixed Interest Fund	Financed Emissions (tCO ₂ e)	Weighted Average Carbon Intensity
Corporate Bonds	1,706	7
Sovereign Bonds	76,605	188

Please refer to the Metrics and Targets section as well as the Appendices for further information on the assumptions and limitations of this data.

Governance

- Governance body
- Management

Harbour's governance of climate-related impacts is outlined in this section, covering our governance body responsible for oversight, the roles and responsibilities of our management team and how these all tie together through the various reporting lines in our organisational structure.

Governance body

Oversight

Harbour is the manager of the Scheme. Harbour's Board of Directors has primary responsibility for the oversight of climate-related risks and opportunities for the Hunter Fund that comprises the Scheme.

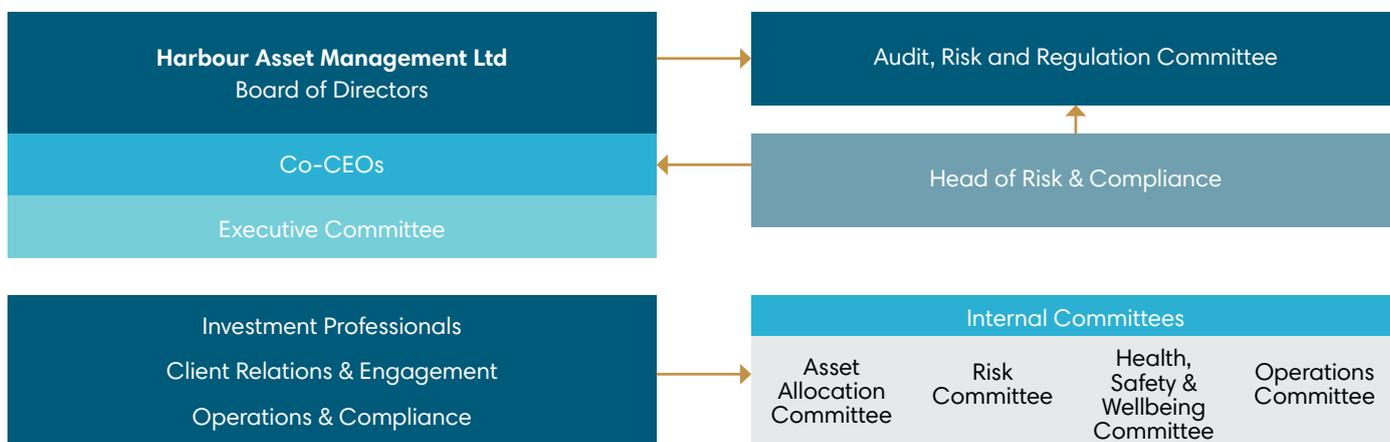
During the reporting period, Harbour's Board comprised four independent directors (including an independent Chair), the Managing Director and two other non-independent directors. Following the end of this reporting period, the Board composition changed (publicly available at www.companiesoffice.govt.nz) and there was a leadership change that resulted in a Co-CEO structure where the Managing Director is now Co-CEO/CIO and joined by a newly appointed Co-CEO.

The Board utilises the Audit, Risk and Regulation subcommittee (ARRC) to assist in the oversight of climate risks and opportunities across the Schemes, particularly in the approval of regulatory documents. This subcommittee is chaired by one of the independent directors of the Board.

The ARRC and the main Harbour Board oversee the overall risk assessment matrix for Harbour, which is the main output of the quarterly internal risk committee meetings, attended by senior management, covering a broad range of investment and business-related risks. Environmental, social and governance risks including climate change are included as part of this assessment.

The change in ownership in Harbour with the newly formed FirstCape, as noted in the background information, may see some aspects of climate governance for the Scheme evolve over time.

Ownership: FirstCape Group Limited 100%



Reporting

Harbour's Board receives reporting on risks (including climate) from management on a quarterly basis following each risk committee meeting. Climate risks and opportunities for our investment portfolios are assessed and integrated into the overall risk management framework.

The Board also receives updates from management on an ad hoc basis during board meetings where appropriate, such as being informed of progress towards disclosure against these regulatory climate standards.

The Risk Committee and the ARRC (via the Risk Committee) receive reporting specific to the Hunter Fund on an exceptions basis and largely covers breaches to the mandate in relation to ESG exclusions.

Skills and competencies

The board endeavors to ensure that there is an appropriate balance of relevant expertise, shareholder representation, experience, diversity, and independence to promote sound governance of Harbour. The Harbour Board has included in its work program going forward a 'Review and Evaluation' assessment for all its directors.

The Board has the ability to seek external advice where appropriate, including on matters pertaining to environmental issues. Climate educational sessions for the Board will be held each year going forward to ensure they are kept up to date with the latest developments, especially the evolving regulatory requirements.

Strategy

Any change in the [Harbour-ESG-Policy](#) or fund design with respect to climate considerations is subject to board consideration and approval to ensure consistency with Harbour's overall responsible investment strategy. A review of Harbour's ESG policy is conducted annually or more frequently if required.

The development and implementation of Harbour's strategy primarily sits with the Managing Director (currently Co-CEO/CIO) who is a member of the Board and receives feedback and oversight from the other directors.

Performance and remuneration

Sustainability is one of the key performance objectives of the company. An overall assessment is made with respect to sustainability performance at the Board's discretion which in part contributes to total firm remuneration outcomes.



Management

Responsibilities

Harbour has appointed PIMCO Australia Pty Ltd (PIMCO) as the underlying specialist investment manager for the Hunter Global Fixed Interest Fund. This means that the responsibility for investing and managing the assets of the Fund is delegated to PIMCO. PIMCO is appointed under an investment management agreement (IMA) which specifies the types of investments (asset classes), prohibited investments (ESG exclusions) and tracking performance against a specified benchmark. All external manager appointments are approved by the Global and Multi Asset Investments (Multi Asset) team.

The external manager's approach to integrating ESG (including climate) considerations into their investment processes is assessed as part of the onboarding process. Harbour's role is then focused on the ongoing oversight of the Fund that includes the management and monitoring of PIMCO and the investment management services provided.

Climate change analysis and integration into the investment process subsequently sits with the Portfolio Manager at PIMCO.

Process and monitoring

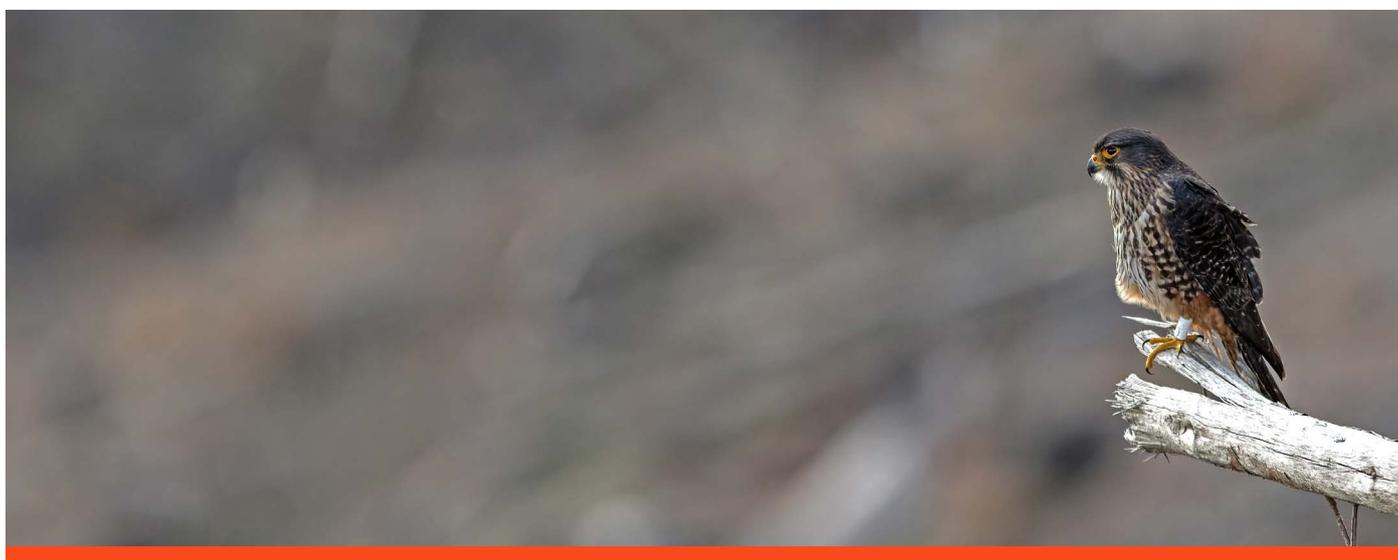
The ongoing monitoring and engagement between Harbour management and PIMCO is coordinated through Harbour's Multi Asset team where the Head of Multi Asset and Global Investments as well as a Senior Portfolio Specialist liaise directly with representatives from the PIMCO investment management team.

This engagement involves regular correspondence and updates on general investment matters including sustainability information.

In addition, Harbour conducts its own analysis of climate risks and opportunities using holdings in the Fund and tools provided by an external ESG data provider MSCI. This is further detailed in the Risk Management section of this report.

Following the end of the reporting period, a change in organisational structure has resulted in the formation of a new Responsible Investing (RI) team, comprising an RI Senior Manager and the Manager of ESG Research. The RI team will have responsibility for monitoring of external manager approach to Responsible Investment and integration of ESG factors which includes climate.

The Head of the Multi Asset team provides information on breaches (if any arise) relating to ESG exclusions (see the Risk Management section for more details on the exclusions process) to the ARRC. These risk committee meetings occur on a quarterly basis with Board meetings typically taking place at least four times per year.



Strategy

- Current Impacts
- Scenario Analysis
- Expected Impacts
- Fund Strategy Implications

Harbour's strategy with respect to climate-related impacts are described in this section. This covers both backward looking and forward-looking aspects of climate impacts as well as the implications for portfolio outcomes. This also includes a scenario analysis that facilitates the assessment of potential risks and opportunities in different future states of the world.

Current Impacts

Harbour has identified the following examples of climate impacts that have affected assets held in the fund (that comprises this Scheme) over the reporting period. At the fund level, these impacts are reflected in the changing market value of our investments, which flows through to the overall return delivered to investors. The attribution of these impacts is difficult to quantify, given the many other non-climate-related impacts that the companies would face over the period.

Assessing current impacts

The Hunter fund has a large exposure to sovereign related debt instruments² comprising 57% of the total FUM and 66% of this is a geographic exposure to the United States. The Hunter fund's notable concentration in the corporate bond asset class is a large exposure to the financial sector comprising 93% of the total corporate bond exposure. The key geographic exposures for corporate bonds are to the United States, United Kingdom and France at 49% of total corporate bond exposure.

Given the inherent uncertainties in assessing the current impact of climate-related risks, a materiality approach has been taken, using geographical, sector and company exposure. The key impacts over the last 12 months are described below.

Climate litigation and regulation

(transition) - climate litigation cases continue globally particularly in the finance sector as regulators and climate groups bring legal action for misleading statements in relation to GHG emissions and challenges to sustainability claims made by the sector. Financial Institutions are also increasingly captured under new mandatory climate disclosure regimes including Europe, California, Singapore, Australia and New Zealand. The impact of this risk includes fines, increased resourcing and costs including a high level of management time allocated to climate risks.

The companies noting impacts from this risk are.

- In September 2023 Deutsche Bank AG Ltd subsidiary DWS Wealth management was fined USD\$ 19 million, which at the time of the announcement was the largest penalty imposed by the SEC on an asset manager. This followed a two-year investigation by the SEC after an ex-employee alleged that the firm misrepresented the extent of ESG integration into the investment process.
- Maybank Singapore Limited – In their 2023 climate report noted “existing and increasing regulations and standards related to climate change and broader environmental aspects may pose compliance challenges, exposing the Group to legal and financial risks in the event we are unable to adapt and meet evolving requirements.”

² This includes Sovereign bonds, Federal Home Loan Mortgage Corporation mortgage pass throughs and Repurchase agreements

Inflation Reduction Act (IRA) (opportunity) - the introduction of the IRA in the United States of America (USA) has seen many companies take advantage of this opportunity including the financial sector through supporting their clients to learn about the benefits and opportunities, creating new products and financing companies in sectors supported by IRA.

- The company that noted significant involvement in IRA related activity was Wells Fargo. Their 2024 climate report describes the work they have done to support customers in sectors benefiting from IRA subsidies and the implementation of the U.S. EPA's Greenhouse Gas Reduction Fund (GGRF), a \$27 billion fund created as part of the IRA rollout.

Insurance costs (transition) - extreme weather events are a common occurrence globally. Insurance losses from natural catastrophes have topped USD 100bn per annum over the last four years. This has seen insurance premiums increase significantly and insurance companies withdraw coverage for new policies from some areas. Higher insurance premiums are an inflationary pressure for global economies and the ability for Insurance companies to continue to pass on these costs may impact profitability.

- The Toronto Dominion Bank Insurance business has developed products that recognize climate mitigation and adaptation efforts via insurance discounts. The insurance business was exposed to flooding in Halifax and wildfires in Yellowknife and Kelowna in 2023.

Scenario Analysis

Climate-related scenario analysis involves the development of multiple, plausible future states of the world according to differing pathways in physical, regulatory and economic settings. This helps to identify potential risks and opportunities that may impact the Fund and to test the resilience of the portfolio strategies.

Harbour has used three-climate related scenarios that are consistent with sector level work led by the New Zealand Financial Services Council to develop climate scenario narratives for the investment services and insurance sectors. We participated in the consultative approach taken and have adopted its outputs as a base to provide comparability with other investment managers in New Zealand. This process is a standalone qualitative approach, the approach and chosen scenarios have been reviewed by Harbour's Board and Managing Director (Currently Co-CEO/CIO).

In addition, Harbour has utilised portfolio-level scenario analysis features from our third-party data provider MSCI. MSCI's CVaR product has a range of scenarios available that are aligned with credible global climate models such as the Network for Greening the Financial System (NGFS). The scenarios described below have been purposefully selected to conform to the requirements of XRB's CS1 as closely as possible and provide useful outputs to represent the resilience of the portfolios to these potential future states of the world.



Orderly (1.5 degrees)

This scenario represents an orderly transition to a low carbon global economy. It is consistent with a global temperature pathway limited to 1.5 degrees and the world reaching net zero emissions by 2050. It assumes a steady and constant shift in technology, policy, and behaviour to achieve this transition, facilitated by a rising carbon price to reinforce this change. Action toward reducing emissions is prioritised above using offsets to accelerate the progress in decarbonisation. This strong and timely action will help to mitigate the worst anticipated impacts of climate change, however some chronic impacts from past emissions will still occur. Overall, out of all three scenarios analysed, this represents the lowest level of physical risk with a medium level of transition risk.

Hothouse (> 3 degrees)

Under this scenario, there is minimal action taken to move towards a low carbon global economy and is closest to a current policies or business-as-usual pathway. As a result, there would be an increased use of fossil fuels and limited initiatives to curb greenhouse gas emissions, leading to global temperatures rising above 3 degrees over the long term. It assumes there are less drivers for a low carbon transition such as the lack of technology development, unhelpful policy and low and ineffective carbon prices. The higher average temperatures then means that there would likely be an increased frequency and severity of extreme weather events. Overall, relative to the other scenarios, this represents the highest level of physical risks and lowest level of transition risk.

Too little too late (> 2 degrees)

This scenario represents a delayed and misaligned transition to a low carbon global economy. It is aligned with a temperature warming pathway that is greater than 2 degrees but less than 3 degrees. It assumes there is some action taken to mitigate emissions and the use of fossil fuels, although it is uncoordinated and insufficient to minimise climate impacts long term. This lack of coordination would likely be evident through policy settings and behaviour diverging between countries with some taking rapid action to pursue net zero emissions by 2050 while others maintain the status quo or start late in changing their practices. As a result, carbon prices, technological developments and levels of investment would vary on a geographic basis but ultimately still lead to a higher likelihood of more frequent, severe weather events over the long term. Compared with the other scenarios, this represents a high level of transition risk and medium level of physical risk.

Scenario characteristics

For further detail on the underlying assumptions on macroeconomic and climate modelling assumptions, please refer to the summary table of scenario characteristics provided in Appendix 1.



Risk and Opportunities

The table below summarises the qualitative climate risks and opportunities identified from the scenario analysis for the fund in the Scheme.

Physical risks are largely prevalent for those companies operating in the financial services sector that have assets exposed to extreme weather events like floods and droughts. These risks are highest under a “Hothouse” scenario as demonstrated by the greater value at risk modelled in the Metrics and Targets section.

The primary transition risk is policy-related, affecting a company with high value chain emissions. This financial services company may face policy risks such as carbon price obligations and stringent regulation that would add to its operating costs.

The main climate opportunity identified is the greater demand for renewable energy as the world transitions to a low carbon economy. The company identified is involved in the distribution of electricity and will therefore be a beneficiary where the higher demand for renewable energy would lead to greater generation and subsequently energy supplied through the network.

Issuer	Scenario	Risk/Opportunity	Physical/Transition	Sector	Geography	Time Horizon
Risks						
BNP Paribas	Hothouse, Too Little Too Late	Coastal flooding risk	Physical	Financial Services	France, China, Bahrain	Medium, long
Standard Chartered PLC	Hothouse, Too Little Too Late	Coastal flooding risk, extreme heat	Physical	Financial Services	UK, China	Medium, Long
Societe Generale SA	Hothouse, Too Little Too Late	Coastal flooding risk, extreme heat	Physical	Financial Services	France, India, China	Medium, Long
Danske Bank	Hothouse, Too Little Too Late	Coastal flooding risk	Physical	Financial Services	Denmark	Medium, Long
Societe Generale SA	Orderly, Too Little Too Late	Policy risk – value chain emissions	Transition	Financial Services	France, India, China	Medium
Opportunities						
National Grid	Orderly, Too Little Too Late	Renewable demand opportunity	Transition	Energy	UK, US	Short, Medium, Long

Time Horizons

	Short Term	Medium Term	Long Term
Time Horizon	1 – 3 years	5 – 10 years	25+ years
Year Relative to 2024	2026	2030	2050

These time horizons have been adopted in collaboration with other industry peers as part of a scenario narratives project to help provide comparability and consistency between climate related disclosures.

In addition, these time periods generally align with net zero and interim targets that are prevalent amongst portfolio constituent companies.

Expected Impacts

The table of risks and opportunities above includes a qualitative assessment of the expected impacts across the Hunter Fund on a scale of low, medium and high.

Harbour has applied a materiality lens in making these assessments based on multiple factors:

- The climate value at risk
- The position size (weight) of the investee company in the fund
- Any investee company risk mitigation initiatives

Based on this analysis, the highest anticipated negative impacts are for finance companies that would have a high exposure to the residential housing market globally and are therefore exposed to physical risks especially coastal flooding risk.

These impacts would be most prominent under the 'Hothouse and 'Too Little Too Late' scenarios where physical risks are more prevalent. This would, in turn, decrease the profitability of these companies and lead to lower shareholder returns and/or increase the probability of default.

The highest expected positive impact is attributable to companies that will benefit from increased demand in renewable energy such as National Grid in the UK.

The other risks and opportunities assessed as medium and low impacts tend to be mitigated by factors such as the ability for governments to fund adaptation requirements, asset locations and small position sizes across the Fund.



Fund Strategy Implications

Overview of Hunter fund strategies:

The Hunter Fund has a specific investment strategy and objectives managed by PIMCO and offers diversified exposure to international fixed income markets. The investment strategy and objectives for the Fund are set out below.

External managers, at a minimum, are assessed by Harbour to be aligned with two key RI principles:

- Have a firm-wide commitment to improving ESG outcomes for investors.
- Satisfy us during the due diligence process that they meaningfully integrate ESG into their investment decision making process.

Fund	Hunter Global Fixed Interest Fund
Summary of investment objectives and strategy	<p>The Fund invests in a diversified portfolio of actively managed fixed interest securities, cash and derivatives. The predominant investment is in securities issued by governments, supranationals, local authorities, and corporates. The fund may also invest in emerging market debt, asset backed securities, mortgage-backed securities, structured notes, bank loans, high yield securities, mortgage derivatives, preferred securities, unrated securities, cash and cash equivalents, and derivative instruments, including currency hedging instruments. The fund targets being fully hedged to New Zealand dollars.</p> <p>Derivatives may be used to obtain or reduce exposure to securities and markets, to implement investment strategies and to manage risk.</p>
Target investment mix	100% international fixed interest (hedged to NZD)
Minimum suggested investment timeframe	Three years
Risk category	4

Climate implications for fund strategy:

At the portfolio level, we expect climate-related risks and opportunities to have an impact across the following aspects:

- Credit spread and rating
 - Devaluation of current bonds could cause credit spreads to widen further
 - Decreased credit quality of the portfolio
- Value at risk (likely to increase under more aggressive physical climate scenarios)
- Liquidity and cash flow
 - Increased probability of default could impact portfolio's expected cash reserve/cash flow
 - Increased difficulty to sell bonds (and at a reduced price)
- Returns
 - Devaluation of portfolio's current bonds
 - Increased yield of future bonds if purchased after yield increased
 - Penalised yield
 - Credit spread deterioration

Risk Management

- Process
- Overall Risk Integration

Harbour's risk management process regarding climate-related impacts is described in this section, including the tools, time horizons and frequency of assessment. It also covers how this process integrates into our company-wide risk framework that captures a broad range of investment and business risks. Actual risks identified are covered in the Strategy section of this report under Risks and Opportunities.

Tools and Methods

Harbour uses ESG data provider research to identify and assess the impact of climate-related risks. Harbour selected its current provider MSCI after a review process and concluded it would best be able to assist in providing useful climate data and analytics to enhance our investment process and help meet regulatory requirements.

This is separate and in addition to the climate analysis conducted by PIMCO as the Fund's delegated investment manager.

MSCI's climate value at risk (CvaR) product enables us to measure the portfolio level exposure to physical and transition risks. This calculation involves selecting different global temperature warming

scenarios to estimate the value at risk broken down by physical and transition as well as an aggregate exposure.

On the physical climate VaR, these are further delineated by acute and chronic risks. Examples of acute risks include cyclones, wildfires and flooding whereas chronic risks include extreme heat, heavy snowfall and heavy precipitation.

Transition risks are categorised by asset stranding, operational transition and product transition. Examples of risks arising from these channels include regulatory fines, carbon taxes and investment in decarbonisation measures that can increase costs and reduce profitability of companies.

Time Horizons

	Short Term	Medium Term	Long Term
Time Horizon	1 – 3 years	5 – 10 years	25+ years
Year Relative to 2024	2026	2030	2050

These time horizons have been adopted in collaboration with other industry peers as part of a scenario narratives project to help provide comparability and consistency between climate related disclosures.

In addition, these time periods generally align with net zero and interim targets that are prevalent amongst portfolio constituent companies.

Frequency

The frequency of assessment depends on the risk metric. Climate information provided by companies such as GHG emissions data are typically provided on an annual basis.

However, at the portfolio level, given the ability to adjust position sizes in these companies, the value at risk can fluctuate on a daily basis. From a practical perspective, we measure and monitor the portfolio level footprints including a deeper value at risk analysis on a quarterly basis.

Prioritisation and integration of ESG factors - PIMCO approach

The Hunter fund does not have a specific ESG strategy beyond the ESG exclusions noted below. The integration of ESG factors into PIMCO's investment process seeks to account for material ESG risks in both top-down macro positioning and bottom-up security evaluation. To the extent that ESG risks are material for sectors or issuers this will be reflected in the credit view. PIMCO's portfolio managers and analyst teams evaluate a variety of factors, including market risks, liquidity risks and ESG considerations when making investment decisions.

Exclusions

The Hunter fund has several ESG based exclusions including fossil fuel exclusions. Companies that meet the exclusion criteria are flagged within PIMCO's systems.

The exclusions are based on a set of universal issues for clients and were identified through a client survey assessment of the current regulatory and investment environment.

Overall Risk Integration

Harbour's assessment of its external managers approach to RI ensures that the external managers we appoint integrate ESG risks into their investment decisions (as described above). Harbour undertakes due diligence including independent carbon footprint analysis, and regular engagement the external managers on their ongoing management of ESG issues.



Metrics and Targets

- GHG emissions
- Other standard climate metrics
- Industry metrics
- Targets

This section provides multiple quantitative measures to show the exposure of Harbour portfolios to climate risks and opportunities that can be used to track performance over time and compare with other funds and/or benchmarks. It includes both standard metrics such as total (financed) GHG emissions for each fund as well as prevalent industry metrics Carbon Footprint and Weighted Average Carbon Intensity.

Financed emissions

At the Scheme level, the most material and relevant emissions for the Fund are the indirect (scope 3) investment-related emissions which represent the total emissions financed by each of its underlying portfolio constituents. This measure represents an ownership approach where a greater amount invested in an issuer means a higher amount of the emissions associated with that issuer being financed.

GHG emissions for portfolio constituents are measured according to a third party ESG data provider (MSCI). Harbour utilises the Partnership for Carbon Accounting Financials (PCAF) standard³ for its methodology in calculating the portfolio financed emissions.

Additional information on the limitations and calculation methodology of this data are provided in Appendix 2 and 3. The fund coverage and data quality scores provided in Appendix 4 and 5 should also be taken into account when analysing these financed emissions and other climate metrics presented in this report.

Hunter Global Fixed Interest Fund	Financed Emissions (tCO ₂ e) ⁴
Corporate Bonds	1,706
Sovereign Bonds	76,605

The table above shows the total financed emissions by the covered asset classes.

Financed emissions for sovereign bonds is driven by the large exposure to the United States (as noted in the Strategy section above) which is the second largest⁵ emitter globally.

The most significant contributor to financed emissions within the corporate bond asset class is the financial sector, contributing 46% of the fund's GHG emissions, this is due to the large exposure to this sector. Other notable sectors that contribute to financed emissions is the consumer discretionary sector (e.g. automobiles, hotels and household durable goods), contributing 30% of the funds GHG emissions and real estate contributing 7% of the funds GHG emissions.

³ PCAF: Global GHG Accounting & Reporting Standard for the Financial Industry

⁴ Source: Harbour, MSCI, Bloomberg as at 30 June 2024

⁵ The United States is the second highest emitter in the world - [World's biggest CO₂ emitters 2022 | Statista](#)

Other standard climate metrics

Weighted Average Carbon Intensity (WACI)

This metric shows the exposure of the fund to carbon-intensive companies by taking the weighted average of each investee company's carbon intensity (emissions divided by sales). For the sovereign bonds in the portfolio this is measured by emissions divided by nominal GDP (NZD millions). This measure provides comparability between funds since the calculation involves a portfolio weighted rather than ownership-based approach.

Hunter Global Fixed Interest Fund	Asset class	Weighted Average Carbon Intensity ⁶ (tCO ₂ e / NZD M sales)
	Corporate bonds	7
		Weighted Average Carbon Intensity (tCO ₂ e / GDP)
	Sovereign bonds	188

The table above shows a low overall carbon intensity within the corporate bond asset class, the Consumer discretionary, utilities and real estate sectors have very high WACI driven by carbon intensive energy usage. The large carbon intensity within the sovereign bond asset class is driven by a large weighting to the United States as the high emitting countries typically have a higher footprint.

Transition Risks

There are a broad range of risks associated with the transition to a low carbon economy that may be related to policy, market behaviour and technology forces.

We have categorized these risks according to the total exposure to low carbon transition risk metric assessed by MSCI that is further broken down by operational, product or asset stranding risk. Further details on the methodology of this metric are provided in Appendix 8.

The largest contributor to transition risk for the Fund is the product transition aspect that captures companies that risk facing reduced demand for carbon intensive products and services. This is because the fund has a significant allocation to traditional debt securities that may be displaced by green bonds and other sustainable finance instruments.

	Exposure to Low Carbon Transition Risk
Hunter Global Fixed Interest Fund	2.4%

Physical Risks

There are many types of physical climate hazards such as floods, droughts and cyclones that will impact companies across the funds, particularly for scenarios with higher expected global temperatures.

We have provided a measure to assess the exposure to these physical risks at the portfolio level through MSCI's Physical Risk Climate Value at Risk model. This metric calculates the present value of each investee company's future costs (and profits) due to physical hazards under different global warming scenarios. The "Orderly" and "Hothouse" scenarios were selected to show the extent of outcomes possible from this model. Further information on this metric is provided in Appendix 6.

Hunter Global Fixed Interest Fund ⁶	Physical CVaR 1.5 degrees (Orderly)	Physical CVaR 3 degrees (Hothouse)
Corporate Bonds	-0.2%	-0.4%
Sovereign Bonds	-1.5%	-0.2%

The table above illustrates the greater value at risk for a "Hothouse" scenario for corporate bonds where physical hazards are expected to be more frequent and severe given the higher global temperature.

⁶ Source: MSCI as at 30 June 2024

The coastal flooding hazard is the largest contributor to the corporate bond climate value at risk for the Fund with examples of issuers exposed to this risk provided in the Strategy section under expected impacts. This is primarily due to the location of their assets being in countries with a higher risk of these flooding events. We believe the more favourable outcome under a Hothouse scenario for sovereign bonds is driven by the likelihood of a flight to quality under this scenario.

Climate Opportunities

The transition to a low carbon global economy will present opportunities to a broad range of companies that can provide goods and services that enable or accelerate this transition.

Harbour has measured this at the portfolio level by the weighted average of green revenue exposure. This metric captures the proportion of each portfolio that is exposed to companies that have revenue aligned to key climate themes such as alternative energy, energy efficiency and pollution prevention and can also be viewed as amount of capital deployed to climate opportunities.

Further information on the methodology of this metric is provided in Appendix 7.

	Green Revenue Exposure ⁶
Hunter Global Fixed Interest Fund	0.4%

The largest contributors to the themes classified as green revenue for the Fund are corporates in the financial services and technology industries. These companies are screened to have revenue that is aligned with the energy efficiency theme.

Internal Emissions Price

At this stage, internal emissions prices are only integrated as part of the scenario analysis conducted through the use of MSCI's CVaR tool that assumes a carbon price trajectory under each scenario according to a scientific climate model.

Based on the modelling assumptions under the scenarios analysed, it is projected that under an Orderly (1.5 degree) pathway, the carbon price would be close to US\$600 per tonne by 2050. Whereas, for the "Too Little Too Late" and "Hothouse" scenarios (>2 and >3 degrees respectively), the carbon price would be approximately US\$125 and US\$10 per tonne⁷. These results show the high degree of transition risk associated with low temperature scenarios such as the Orderly (1.5 degrees) pathway given the high carbon price. Conversely, assuming a business-as-usual pathway with minimal transition under the Hothouse scenario would yield a relatively flat carbon price trajectory that would not change much from its starting point.

Remuneration

Everyone in the Harbour team, including investment professionals, operations, and client services has sustainability and responsible investing as a key performance objective as part of the matrix of six key collective goals. In this way, we all contribute to supporting Harbour's own corporate behaviour that underscores the investment team's active investment approach.

⁷ https://www.ngfs.net/sites/default/files/media/2024/01/16/ngfs_scenarios_technical_documentation_phase_iv_2023.pdf

Industry based metrics

The Carbon Footprint metric presented below is a prevalent measure used in the investment management industry to show emissions financed while controlling for fund size by dividing by capital invested.

Hunter Global Fixed Interest Fund	Carbon Footprint (tCO ₂ e / NZD M invested) ⁸
Corporate Bonds	1
Sovereign Bonds	47

The table above shows the total financed emissions per million dollars invested for the covered asset classes.

As mentioned in the Financed emissions section above, the largest contributor for the sovereign portion of the fund is the exposure to the United States while for the corporate portion is the exposure to the financial sector.

⁸ Source: Harbour, MSCI, Bloomberg as at 30 June 2024

Targets

The Fund in this Scheme does not currently have any specific GHG emissions targets at the portfolio level. This may be subject to change however at this stage, the investment objective is not formally bound by a climate target although individual securities within the fund may have elected to adopt one at its own discretion. As such, there is also no explicit base year for benchmarking progress however this would be carefully assessed in consideration for any future climate-related targets.

Climate related risks and opportunities are still measured and integrated into investment decision making, however this is in the context of the existing objective to outperform the benchmark over the specified time period subject to risk constraints.



Appendices

- Appendix 1 – Scenario characteristics
- Appendix 2 – Calculation methodology
- Appendix 3 – Limitations
- Appendix 4 – Coverage Ratio
- Appendix 5 – Data Quality Score
- Appendix 6 – Physical Climate Value at Risk
- Appendix 7 – Green Revenue Exposure
- Appendix 8 – Low carbon transition risk

Appendix 1: Scenario characteristics

	Orderly	Too Little Too Late	Hothouse
Climate and socio-economic pathways	IPCC SSP 1- 1.9 NIWA RCP 2.6 CCC 'Tailwinds'	IPCC SSP 2-4.5 NIWA RCP 4.5 CCC 'Headwinds'	IPCC SSP 5-8.5 NIWA RCP 8.5 CCC 'Current Policy Reference'
Energy and emission pathway parameters	NGFS Net Zero 2050 IEA Net Zero Emissions by 2050	NGFS Fragmented World IEA APS	NGFS Current Policies IEA STEPS
Emission Pathways	Net Emissions <ul style="list-style-type: none"> • Domestic: 47 MtCO₂e by 2030, 3.8 MtCO₂e by 2050 • Global: 21 BtCO₂e by 2030, 0 MtCO₂e by 2050 	Net Emissions <ul style="list-style-type: none"> • Domestic: 57 MtCO₂e by 2030, 22 MtCO₂e by 2050 • Global: 34 BtCO₂e by 2030, 21 BtCO₂e by 2050 	Net Emissions <ul style="list-style-type: none"> • Domestic: 62 MtCO₂e by 2030, 35 MtCO₂e by 2050 • Global: 39 BtCO₂e by 2030, 34 BtCO₂e by 2050
Economic Outcomes	GDP <ul style="list-style-type: none"> • Domestic: NZ\$330b in 2030, NZ\$485b in 2050 • Global: US\$176t in 2030, US\$289t in 2050 	GDP <ul style="list-style-type: none"> • Domestic: NZ\$329b in 2030, NZ\$477b in 2050 • Global: US\$175t in 2030, US\$274t in 2050 	GDP <ul style="list-style-type: none"> • Domestic: NZ\$329b in 2030, NZ\$475b in 2050 • Global: US\$175t in 2030, US\$273t in 2050
Energy	Percent of renewable energy of total energy produced: <ul style="list-style-type: none"> • Domestic: 55% by 2030, 90% by 2050 • Global: 30% by 2030, 67% by 2050 	Percent of renewable energy of total energy produced: <ul style="list-style-type: none"> • Domestic: 50% by 2030, 80% by 2050 • Global: 19% by 2030, 37% by 2050 	Percent of renewable energy of total energy produced: <ul style="list-style-type: none"> • Domestic: 48% by 2030, 61% by 2050 • Global: 16% by 2030, 26% by 2050

The assumptions from the table above have been sourced from a combination of the FSC industry scenario narrative report research, NZ Climate Change Commission for domestic parameters and the Network for Greening the Financial System as well as the International Energy Agency for the global parameters.

The scenarios Harbour has selected for its analysis have been purposely chosen to align with both the industry work and these domestic and global climate models to provide better comparability with our peers in the best interests of primary users of this report.

Appendix 2: Calculation Methodology

Harbour's calculation methodology for financed emissions metrics is based on the Partnership for Carbon Accounting Financials (PCAF) Standard for listed corporate debt.

The PCAF standard has built on the widely used framework for GHG emission accounting known as the Greenhouse Gas Protocol but provides more specialised guidance for measuring portfolio-financed emissions for key asset classes.

Harbour has used an operational control approach for the measurement and reporting of GHG emissions in this climate statement. This means that emissions for the Scheme's loans and investments (without operational control) are reported as scope 3 category 15 (investments) emissions, defined under the GHG Protocol Standard.

The definitions and formulae for the key climate metrics used in this report are provided below:

Financed Emissions

$$\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)$$

Measures the total absolute emissions that are financed by the fund's investors through their ownership. Emissions are allocated to all financiers by using the total enterprise value (including cash) in the denominator.

Weighted Average Carbon Intensity

$$\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i} \right)$$

Measures the fund's exposure to carbon intensive companies by taking the weighted average of companies' carbon intensity, defined as its emissions divided by sales in NZD millions.

Carbon Footprint

$$\frac{\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)}{\text{current portfolio value (\$M)}}$$

Measures the total emissions financed by the fund's investors, normalised by the amount invested through dividing by the total portfolio value in NZD millions. Emissions are allocated using a firm ownership approach based on the total enterprise value including cash.



Gases and units

The financed emissions calculated are based on total greenhouse gas emissions with units expressed as metric tonnes of carbon dioxide equivalent. Given these outputs are derived from the emissions data calculated by each of the fund's investee companies, we are unable to report a singular source of emissions factors and global warming potential rates used at the portfolio level. These may vary from company to company and this level of granularity is not available from our data provider.

The dollar values for revenue and portfolio size are in NZD. The metrics are all provided as at 30 June 2024, the financial year end for the fund in this Scheme.

Exclusions

Harbour has determined that the emissions relating to the Scheme are predominantly captured as investments under scope 3, category 15 of the PCAF Standard using the operational control consolidation approach.

Following the materiality requirement of CS 3, Harbour has elected to only include these financed emissions (scope 3, category 15) in its calculation of metrics used in the climate statements.

This means the scope 1, 2 and other scope 3 categories (1 – 14) are excluded from the measurement and reporting of GHG emissions for the Scheme. This is because emissions arising from these sources are deemed to be negligible and immaterial based on estimates calculated during the preparation of Harbour's corporate GHG inventory as part of the Toitū carbonzero certification process.

In addition, Harbour has excluded the measurement and reporting of some asset classes that the PCAF Standard does not cover because of an uncertain calculation methodology and/or lack of reliable GHG emissions data. Harbour has therefore excluded the derivatives and cash (+cash equivalents) asset classes from its calculations of emissions metrics for the fund in the scheme.

Furthermore, Harbour has also excluded cash, derivatives, collateralised debt, private debt and municipal bonds from its calculations as accurate emissions data is not readily available. More information on coverage is in appendix 4 below.

MSCI estimates

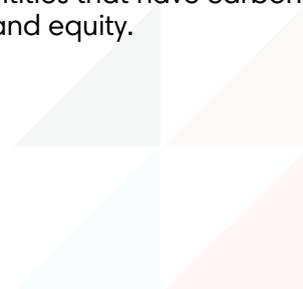
MSCI uses reported emissions data from underlying portfolio companies where possible but for those companies that do not report emissions, MSCI calculates estimates based on production data and/or industry average emissions data and closely follows the PCAF descriptions for data quality scores 3, 4 and 5.

Harbour adjustments

Revenue and enterprise value

Enterprise value and revenue are straight-forward, readily available datapoints for listed companies. We do not perform checking of our data providers given their strong reputations.

Enterprise value measures the market value of an entity's debt and equity. Many bond issuers are not listed on a stock exchange and our data providers leave such entities unpopulated. For entities that have carbon data but not enterprise value, we have manually entered this as book value of debt and equity.



Appendix 3: Limitations

The primary limitation with the information provided in this report is the breadth and quality of the data used, particularly in the Metrics and Targets section.

There are a variety of factors that contribute to the gaps in coverage and ambiguity over the quality of the data, some of which are explained below:

- **Complexity** – Given the broad range of financial instruments and differences in their characteristics, it can be difficult to develop a unified standard to measure and report climate-related information that is accurate and useful for each security. For example, the innovation in derivatives has given investors access to new financial instruments that offer different risk and return profiles compared to traditional securities but from a carbon accounting perspective can make it complicated to attribute emissions data in a fair and accurate manner while avoiding double counting.
- **Verifiability** – Much of the data presented in this report is provided at the fund level which is typically a weighted aggregation of the data from underlying investments in the fund. Given the nascency of mandatory climate reporting, a significant amount of the data (GHG emissions in particular) is self-reported and not subject to assurance or other forms of external verification. This raises concerns over the accuracy of the data and may be prone to errors in methodology or process that would undermine its validity.
- **Timeliness** – It is acknowledged that investee companies measure and report climate data at different points in time and at different frequencies according to their own reporting periods and practices. This can create a mismatch in the timing of data when comparing between companies and calculating portfolio level metrics such as carbon footprints. This issue is further exacerbated by time lags from external ESG data providers from when the data is made publicly available from companies and when it is reflected in its respective database.

From a practical perspective, the data provided in this report is limited by the coverage of each portfolio calculation, the level of reliable, verified data from the underlying investee companies and the timeliness impacted by the differing reporting periods and our use of an external ESG data provider.

The fund coverage and data quality scores provided in Appendix 4 and 5 should therefore be taken into account when analysing the climate metrics presented in this report.



Appendix 4: Coverage

To demonstrate the proportion of the Fund's assets that have been used to calculate the portfolio level metrics, the coverage percentages are provided in the table below.

This coverage percentage captures both whether the asset type is covered by the metric calculations and if the raw climate data is available.

Note that some asset types such as cash, derivatives, collateralised debt, private debt and municipal bonds are excluded from these measurements which is reflected in the low coverage proportion for this Scheme as it holds some of these securities. Furthermore, there is less coverage of the more complex value at risk metrics by MSCI compared to the GHG emissions data.

Climate Data Coverage % of FUM		
Hunter Global Fixed Interest Fund	Scope 1+2 - % of asset class	Climate VaR - % of total portfolio
Corporate Bonds	100%	15%
Sovereign Bonds	100%	25%
Other – Securitised assets, collateralised assets, cash and derivatives.	0%	0%
Total Portfolio Coverage	85%	40%



Appendix 5: Data Quality Score

As noted in Appendix 3, the quality of data used in this report, particularly GHG emissions can be questionable, so we have provided a metric recommended by the PCAF Standard that attempts to measure this quality.

This metric is the weighted average data quality score where 1 represents the highest quality data and 5 the lowest quality. A score close to 1 would mean the majority of data used is verified company reported emissions, while scores close to 5 are mostly based on emissions estimates derived from economic activity measures.

The weighted average score for the fund in the scheme is presented in the table below:

Financed Emissions Data Quality Score		Corporate bonds only
Fund	PCAF Weighted Score	
Hunter Global Fixed Interest Fund	2.2	

Note that the score calculated above is based only on the fund holdings for which emissions data is available or estimated (the remaining securities are excluded).



Appendix 6: Physical Climate Value at Risk

Harbour has used a physical climate value at risk metric to measure physical risk at the portfolio level for the fund in the Scheme.

This metric has been calculated using MSCI's climate product and shows the percentage of the fund's assets that are at risk for physical climate hazards.

Both acute and chronic physical hazards are captured and the value at risk is calculated as the present value of each investee company's expected costs/profits as a result of these hazards under different global warming scenarios.

MSCI's methodology involves assessing each individual company's exposure to the various physical hazards such as coastal flooding, tropical cyclones, wildfires and others based on the location of its assets. MSCI uses mathematical modelling to estimate the costs/profits from each hazard.

Harbour has provided the physical climate value at risk for both the Orderly (1.5-degree Net Zero) and Hothouse (3-degree Current Policies) scenarios to show the difference in risk at the two opposite ends of the global warming spectrum in our analysis.



Appendix 7: Green Revenue Exposure

The metric Harbour has used to measure climate-related opportunities at the portfolio level for the fund is the weighted green revenue exposure. This has been calculated using MSCI's climate product that maps investee company revenues against the following environmental impact metrics:

Climate change

- Alternative Energy
- Energy Efficiency
- Green Building

Natural Capital

- Pollution Prevention
- Sustainable Water
- Sustainable Agriculture

Harbour has selected only the three climate related themes as its modified definition of MSCI's green revenue exposure metric given the other environmental themes are outside of the scope of climate opportunities.

MSCI's methodology involves screening companies that generate revenues from products or services which have a positive impact on each of the categories above and are further delineated by sub-categories e.g. solar, wind and geothermal under the umbrella of alternative energy and zero emissions vehicles and LED/ CFL lighting under the energy efficiency umbrella.

The metrics are calculated based on company disclosed activities and revenue as well as estimates of revenue that are extrapolated from company disclosures and other credible sources like non-government organisations.



Appendix 8: Low carbon transition risk

Harbour has measured transition risk for the fund in the scheme using the low carbon transition risk metric calculated by MSCI. This metric identifies the proportion of the Fund's market value that is exposed to three categories of transition risk: operational, product and asset stranding.

The metric represents the aggregate exposure of these three categories which are further detailed below.

Operational

Companies that have carbon-intensive operations or supply chains that could be exposed to climate transition costs such as carbon taxes, regulatory fines, rising raw material costs and other supply disruptions caused by supplier carbon-related risk.

MSCI uses company carbon emissions intensity to measure this climate transition risk. Company reported data is used where available for scope 1 and 2 emissions intensity while estimates are used for remaining companies and for scope 3 emissions intensity.

Examples of industries that may be captured by this risk category are cement and steel.

Products

Companies that have carbon intensive products or those in carbon-dependent industries where there is high revenue dependence on other companies with carbon intensive operations/products. These companies may face climate transition costs through reduced demand for their products and services.

MSCI uses estimated scope 3 carbon emissions intensity data according to its proprietary methodology to measure the risk exposure from this category.

Manufacturers of petrol fuelled vehicles, steam turbines and other energy equipment and services companies are examples that are captured in this risk category.

Asset Stranding

Companies that are at risk of having its assets stranded as a result of regulatory, market or technological forces from the climate transition. These companies may face significant costs related to impairments and devaluations of its assets impacted.

MSCI measures the risk exposure in this category as those companies that operate in the fossil fuel value chain that exceed a specific carbon emissions intensity threshold according to its proprietary methodology.

For example, this risk category includes companies involved in coal mining, coal-based power generation and others in the oil and gas industry.



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