HARBOURSIDE
INVESTMENT MANAGEMENT

INVESTMENT PHILOSOPHY

Disciplined. Resilient. Flexible.

Working with Financial Advisers & Accountants to facilitate investment solutions for their clients.

A disciplined, index-unaware framework for risk-adjusted returns, real diversification, and preserving purchasing power across market cycles.

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Our Investment Philosophy

At Harbourside Investment Management, our approach starts with a simple question:

What does the money need to do for the client?

For most clients, the answer is not simply to achieve the highest possible return. The real objective is more practical:

- Provide enough income to support the lifestyle they want.
- Preserve purchasing power over time.
- Avoid large damaging losses at the wrong stage of life.
- Manage capital sensibly through changing market, economic and personal circumstances.

This means we do not see investing as a performance race against an index, a super fund, or the latest market fad. We see investing as a tool to help clients achieve their goals and objectives with a level of risk that is deliberate, understood and appropriate.

Risk-Adjusted Portfolio Construction

The organising principle is risk-adjusted portfolio construction. We are not trying to maximise exposure to the strongest recent market. We are trying to construct portfolios where the expected return is sensible relative to the risk taken, and where different parts of the portfolio are designed to behave differently at the same time.

A portfolio should not rely on a single outcome. The aim is to earn acceptable returns in different ways: through income, valuation discipline, selected growth exposure, inflation-sensitive assets, defensive stores of value and genuinely different sources of return.

Investing Should Achieve The Client's Objectives

For clients approaching or already in retirement, a strong return in one year is useful, but a major loss at the wrong time can permanently damage the plan. The aim is not to chase every rising market. The aim is to avoid mistakes that compromise the client’s ability to fund their future.

The portfolio should be built around the client’s required income, tolerance for volatility, broader household balance sheet, tax position, liquidity needs and the need to protect purchasing power over time.

The path of returns matters. A portfolio that appears acceptable over a long period can still fail a client if it suffers a large drawdown at the wrong time. For a retiree drawing income, the experience along the way is not theoretical. It affects confidence, behaviour and the sustainability of withdrawals.

The First Rule: Do Not Seriously Damage The Plan...

Investment markets will always rise and fall.

That is unavoidable. The real risk is not short-term volatility itself.
The real risk is being forced to sell assets at the wrong time, suffering a large capital loss just as income is required, or owning assets that do not respond well to the economic environment ahead.

Bear markets can be severe.

Major U.S. equity bear markets have involved large drawdowns and, in many cases, extended periods of stress. This is why portfolio construction cannot simply assume that equity market weakness will be shallow or short-lived.

Bear markets can involve severe equity drawdowns and extended periods of stress.

U.S. Bear Markets				
What:	Start	Stop	Duration (months)	S&P 500 Drawdown at peak
Great Depression	Sept 1929	June 1932	34	-86.10%
WW II Hangover	May 1946	June 1949	37	-29.60%
Bay of Pigs / Cuban Missle Crisis	Dec 1961	June 1962	6	-28.00%
Inflation / Vietnam	Nov 1968	May 1970	18	-36.10%
Oil embargo / Watergate	Jan 1973	Oct 1974	21	-48.00%
High inflation / 20% interest rates	Nov 1980	Aug 1982	21	-27.80%
Dot-com crash	March 2000	Oct 2002	30	-49.10%
Housing bubble / Great Recession	Oct 2007	March 2009	17	-56.40%
COVID-19	Feb 2020	March 2020	1	-34.10%
		Average	**20.6**	**-43.91%**

SOURCE: GEORGE NOBLE

This is particularly important for retirees. Once a client is drawing income from their portfolio, a major fall in capital can have a lasting effect. This is known as sequencing risk. If the portfolio suffers a large decline early in retirement while withdrawals are being made, the client may never fully recover, even if markets later improve.

For this reason, we place significant emphasis on managing downside risk, holding sufficient liquidity, generating income where appropriate, avoiding forced selling, reducing reliance on a single asset class or market outcome, and building portfolios that can survive different economic conditions.

We note that we believe many industry funds have a level of growth assets far greater than most ‘balanced’ investors require.

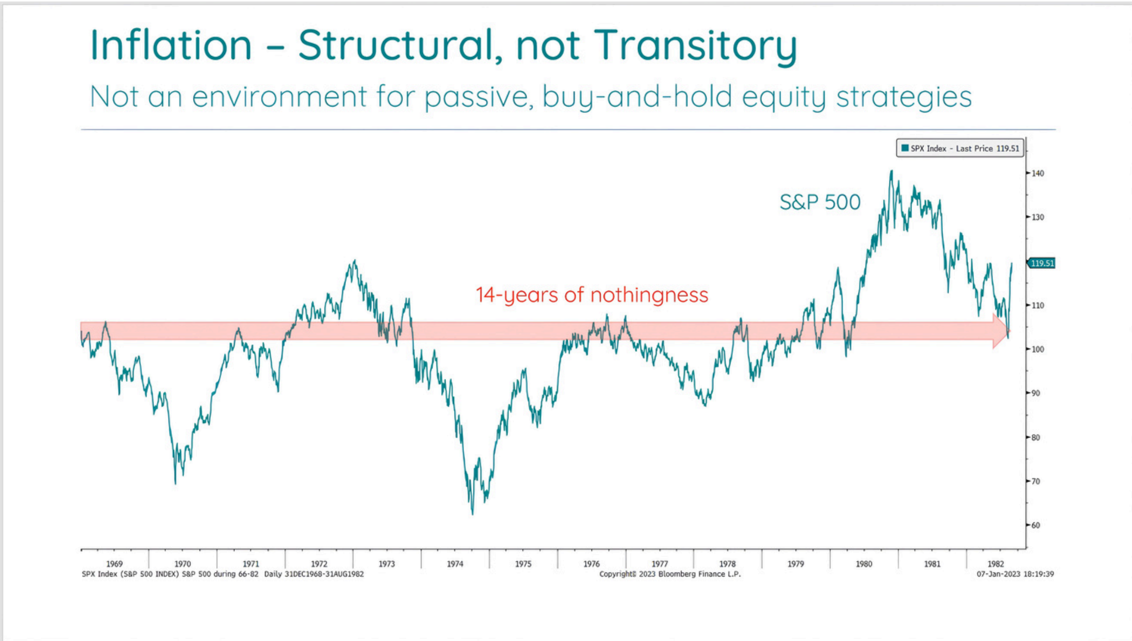
Preserving Purchasing Power

A dollar figure on a statement is only part of the story. What matters is what that money can buy.

If the cost of food, energy, insurance, healthcare, travel and housing rises over time, then a portfolio must do more than maintain its nominal value. It must help preserve purchasing power.

This means we focus on real returns: returns after inflation. A portfolio may appear to be rising in dollar terms, but if inflation is rising faster, the client is still going backwards in terms of purchasing power. This applies to cash and fixed interest, but it can also apply to the sharemarket.

Returns after inflation are not always positive, including for equity markets.



SOURCE: THE QUOTEDIAN

Equities are often described as a long-term inflation hedge, but history shows that sharemarket returns after inflation are not always positive. There can be long periods where real returns are disappointing. This is why we do not assume that passive, buy-and-hold equity exposure will always solve the problem.

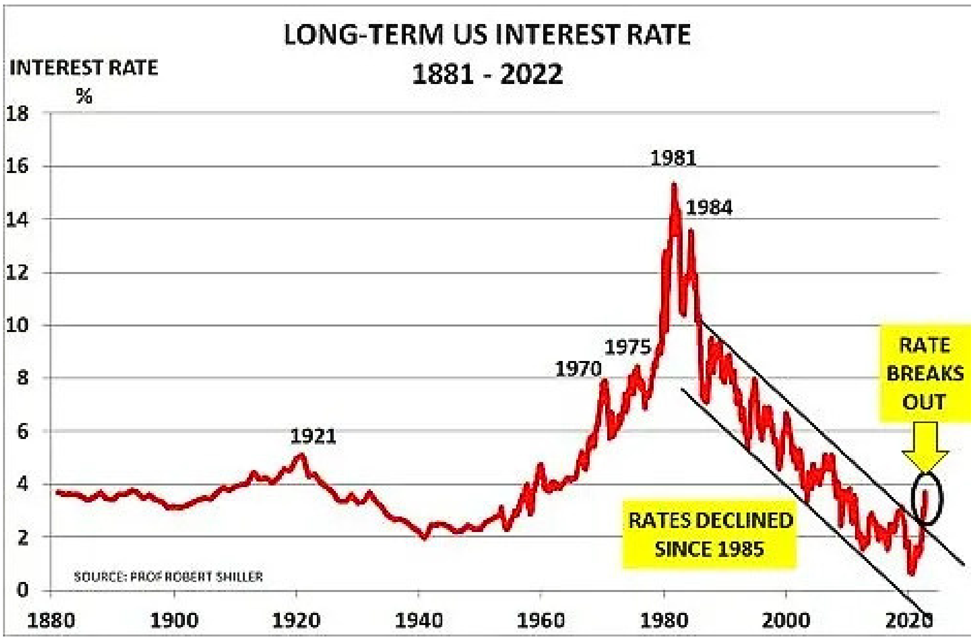
The relevant question is not just whether the portfolio balance is higher in nominal terms. The relevant question is whether the portfolio can still buy the same or greater amount of goods and services over time.

The End Of The Long-Term Debt Cycle

We believe the world has changed. Government debt levels are materially higher. Deficits remain large. Supply chains are being rebuilt for security rather than cost efficiency. Energy security is again a major issue. The global economy is becoming more fragmented. These forces can be inflationary.

We also believe we are at the end of the long-term debt cycle. For several decades, portfolios benefited from a structural decline in interest rates. Falling rates supported asset prices, reduced borrowing costs, increased the value of long-duration assets and made traditional balanced portfolios look more stable than they may otherwise have been. That environment should not be assumed to continue.

Long-term U.S. interest rates: the multi-decade decline in rates may no longer be the dominant investment backdrop.



SOURCE: NEW-NORMAL.COM

If the multi-decade tailwind from falling interest rates has ended, investors need to be more careful about assets that rely on low discount rates, cheap debt or long-duration cash flows. This includes long-duration government bonds, highly valued growth equities and assets priced on the assumption that interest rates will remain structurally low.

In that environment, cash may provide short-term safety, but it is not a long-term store of purchasing power. Long-duration government bonds may also be less protective than they were in the past if inflation and interest-rate risk remain higher than markets expect.

Why We Differ From Mainstream Investing

Most mainstream investment portfolios, including many large industry super funds, are built around conventional asset allocation models. These models typically rely heavily on listed equities, long-duration government and investment-grade bonds, broad market benchmarks, large diversified pooled structures and relatively limited direct exposure to gold, commodities or other monetary and real-asset hedges.

This approach worked well for a long period because the economic backdrop supported it. Interest rates generally fell, inflation was contained, globalisation reduced production costs, and technology companies grew into a dominant part of global equity markets.

Our concern is that many mainstream portfolios are still built for yesterday's world. A global equity index today is not necessarily as diversified as it appears. It may contain thousands of companies, but the actual economic exposure can be heavily concentrated in the United States and in a narrow group of large technology companies.

Likewise, a large balanced fund may appear diversified because it owns many assets, but if those assets are all exposed to the same underlying forces, the diversification may not protect clients when conditions change.

We are not against diversification. We are against false diversification.

Diversification Is Not Just Owning More Things

Owning hundreds or thousands of underlying holdings does not automatically make a portfolio safer. What matters is whether those assets behave differently when conditions change.

A portfolio that owns many different shares may still be highly exposed to the same broad equity-market cycle. If markets fall sharply, many of those shares can fall together. The number of holdings may look impressive, but the portfolio may still be driven by one dominant risk: equity-market risk.

We focus instead on correlation. That means asking how different parts of the portfolio are likely to behave under different conditions.

Alternatives can play an important role where they provide genuine points of difference from equity markets. This may include gold, silver, managed futures and other strategies that are not expected to move in line with traditional shares and bonds. The key is not the label “alternative”; the key is whether the exposure genuinely adds something different to the total portfolio.

The portfolio should include assets that can perform different jobs:

- **some assets should provide income;**
- **some should provide liquidity;**
- **some should provide growth;**
- **some should protect against inflation;**
- **some should protect against financial-system stress;**
- **some should provide exposure to long-term structural change;**
- **some should reduce the need to sell assets at the wrong time.**

This is a different way of thinking from simply asking whether a portfolio is **“balanced,” “growth,”** or **“conservative.”**

Meaningful Positions Matter

A portfolio can also be over-diversified in a practical sense. If an investment theme is correct but the allocation is too small, it will not make a meaningful difference to the client's outcome.

For example, having a token exposure to gold, commodities, emerging markets, infrastructure or real assets may look good on a report, but it may not materially affect the portfolio. If an asset can triple in value and the client barely notices the impact, the holding may be too small to matter.

Our preference is to hold fewer exposures with clearer purposes and more meaningful allocations, rather than building a portfolio full of small positions that do not move the dial.

The Role Of Gold And Real Assets

Gold plays a specific role in our thinking. We do not view gold as a productive business or a yield asset. We view it as monetary insurance and a store of value that cannot be printed by governments or central banks.

Gold is not held because it produces income. It is held because it is one of the few assets outside the traditional financial system. In a world of rising government debt, fiscal deficits and currency debasement risk, gold provides a form of protection that conventional financial assets may not provide.

In an environment of high government debt, monetary debasement risk and financial-system stress, gold can play an important defensive role. It is not intended to replace all other assets. It is intended to provide a form of protection that conventional shares and bonds may not provide.

We may also consider other monetary metals, such as silver, where appropriate. Silver has both monetary and industrial characteristics, but it is more volatile and should generally be sized more carefully.

We also place importance on real assets, including selected property, infrastructure, commodities and resource-related exposures. These assets can be linked to the real economy: energy, materials, transport, utilities, industrial capacity, food production and physical infrastructure.

In an inflationary world, assets with the ability to increase revenues, rents, regulated returns or cash flows over time may be better placed than assets whose cash flows are fixed for long periods.

Why We Are Cautious On Long-Duration Government Bonds

Government bonds have traditionally been treated as defensive assets. For much of the past 40 years, that was reasonable. When interest rates were falling, bond prices generally benefited. Bonds also often helped diversify equity risk.

The problem is that the starting point today is different. Government debt is much higher. Fiscal deficits remain large. Inflation risk is more persistent. If investors demand higher compensation for lending money to governments over long periods, long-duration bonds can fall in value.

Fixed interest is not treated as a single asset class. We distinguish between traditional bond exposure, strategic fixed interest, private credit, absolute return bond strategies, floating-rate exposure and duration risk. Even where we are cautious on long-duration bonds, we may still retain some duration exposure to manage the risk that our interest-rate view is wrong.

This does not mean all fixed interest is unsuitable. Short-duration credit, floating-rate exposure, cash and term deposits can still play useful roles, particularly for liquidity and income management. The issue is duration risk: lending long term at a fixed rate when inflation and government debt risks are rising.

Income Matters, Especially In Retirement

For retirees, income is not theoretical. It pays for groceries, travel, insurance, healthcare and lifestyle.

A portfolio that relies too heavily on capital growth can create a problem: to fund spending, assets may need to be sold. If markets are down at the time, the client may be forced to sell at poor prices.

We therefore look for assets that can generate income where appropriate. This may include property, infrastructure, income-focused equities, selected credit and other cash-flow-producing assets.

The objective is not simply to maximise yield. High yield can be dangerous if it comes from weak assets. The objective is to build a portfolio where income, liquidity and long-term purchasing-power protection work together.

Liquidity Is Not The Same As Long-Term Safety

Cash is useful. It provides liquidity, flexibility and psychological comfort. It allows clients to meet spending needs without being forced to sell long-term assets at the wrong time. However, cash is not a long-term solution by itself. Inflation erodes the value of cash over time. Holding too much cash for too long may feel safe, but it can quietly reduce purchasing power.

The role of cash is therefore specific: it is a short-term liquidity reserve that allows the rest of the portfolio to be invested appropriately for the longer term.

We Are Index-Aware, Not Index-Led

We pay attention to indices, but we are not controlled by them.

An index reflects the market as it exists today. It does not necessarily reflect value, risk or future opportunity. If a market becomes heavily concentrated in one country, one sector or a small number of companies, an index investor automatically owns more of that concentration.

This can create hidden risk. A global equity index may appear broad but still have very large exposure to the United States and to large technology companies. An Australian index may appear broad but can be heavily influenced by banks and large resource companies.

A key advantage of our approach is that we can choose which risks we want to take and which risks we want to avoid. We do not need to own an asset simply because it is large in an index. Investment allocation is about choosing the fights worth being in, and avoiding those where the risk/reward trade-off is unattractive.

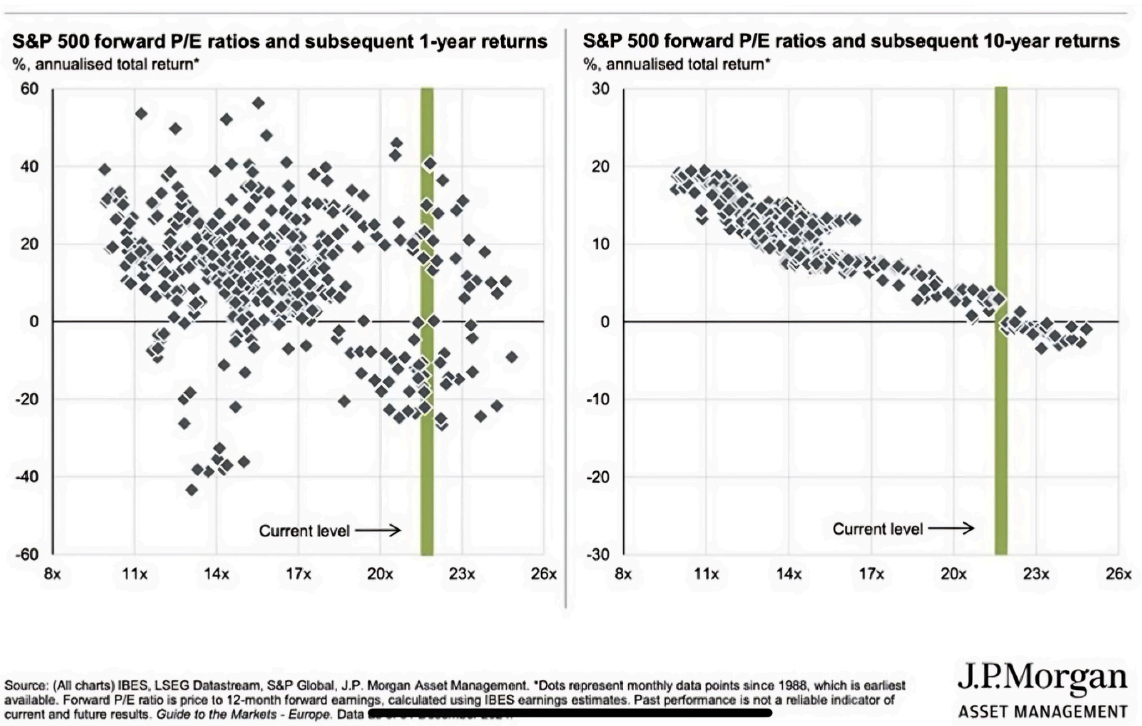
> **WE PREFER TO ASK:** What do we actually want to own, and why?
> This may lead us to hold less of what dominates the index and more of what we believe is under-owned, better valued or more appropriate for the environment ahead.

Valuation Still Matters

One of the most reliable lessons in investing is that the price paid matters. A good asset can be a poor investment if bought at the wrong price. A fashionable market can produce disappointing returns if expectations are already excessive. History contains many examples where investors were right about the broad theme but wrong about the price they paid.

The chart below, from J.P. Morgan Asset Management, illustrates this point using the S&P 500. Over one-year periods, the relationship between starting valuation and subsequent return can be noisy. However, over 10-year periods, the relationship becomes much clearer: higher starting valuations have historically been associated with lower subsequent long-term returns.

S&P 500 forward P/E ratios and subsequent one-year and 10-year returns.



SOURCE: GUIDE TO THE MARKETS - JP MORGAN ASSET MANAGEMENT

This matters because investors are often tempted to justify high prices by pointing to strong recent performance, popular themes or dominant companies. That can work for a time, but valuation still determines the long-term odds.

Technology changed the world after the late 1990s, but many technology stocks still suffered severe losses after the dot-com bubble because valuations had become extreme. Japan remained a major economy after its late-1980s boom, but its sharemarket took decades to recover from excessive valuations.

The Japanese equity market is a reminder that sharemarkets do not always move steadily upward.

SOURCE: LSEG VIA MARKETS.FT.COM

The Japanese equity market is a useful reminder that sharemarkets do not always move steadily upward. The Nikkei 225 reached a peak in December 1989 and did not return to that level for more than three decades. Investors who relied only on the assumption that the broad equity market would recover quickly had to wait a very long time.

This is one reason we like to own assets that are not simply reflective of the equity market. Equities have an important role, but they should not be the only engine of a portfolio. A resilient portfolio should include assets that can perform different roles and respond to different economic conditions, including income-producing assets, real assets, inflation-sensitive assets, liquidity reserves and defensive stores of value.

We do not believe investors should ignore valuation simply because an asset, company or theme is popular.

We Prefer Real Diversification Over Benchmark Comfort

Large funds often need to own the market because of their size, structure and benchmark constraints. They may also need to remain close to peer funds to avoid looking different over short timeframes.

Our approach is different. We are prepared to look different where we believe the client's objectives require it.

Protection is not only achieved through asset allocation. It can also come from understanding the behaviour of the managers we select. Where active managers have clear styles and risk controls, the portfolio can be tilted toward more protective managers and away from riskier exposures when conditions require it.

That may mean:

- less exposure to long-duration government bonds;
- less exposure to expensive growth equities;
- less reliance on broad indices;
- more exposure to gold and real assets;
- more emphasis on income-producing assets;
- more exposure to selected commodities and resources;
- more attention to emerging markets and non-US opportunities;
- greater use of active management where indexing is unsuitable;
- more attention to how the total household balance sheet is positioned.

This can feel uncomfortable because it differs from mainstream portfolios. But being different is sometimes necessary if the risks ahead are different from the risks of the past.

The Household Balance Sheet Matters

We do not look at an investment account in isolation. A client may have superannuation, pension accounts, personal investments, cash, property, business interests, overseas pensions or other assets. The right investment mix depends on the total picture.

If a client already has significant exposure to one asset class elsewhere, we may not need to duplicate that exposure. If a client has concentrated property, bank shares, overseas currency exposure or a large amount of cash, the investment portfolio should be constructed with that in mind.

The aim is not to make every account look identical. The aim is to ensure the client's total position is sensible.

Our Practical Portfolio Principles

- Start with the client's objectives. The portfolio exists to support the client's income, lifestyle, retirement and estate-planning goals.
- Build risk-adjusted portfolios. Return is assessed relative to the risk required to achieve it.
- Avoid permanent damage. Large losses at the wrong time can do more harm than years of modest underperformance.
- Preserve purchasing power. The portfolio must be assessed against inflation and real-world costs, not just nominal returns.
- Do not rely on yesterday's environment. The falling-rate, low-inflation, globalisation-driven world may not repeat.
- Own assets for a clear reason. Every major holding should have a job: income, liquidity, inflation protection, growth, diversification or protection.
- Focus on real diversification. We care about how assets behave under stress, not simply how many holdings are in the portfolio.
- Avoid excessive index concentration. We are willing to be different from benchmarks where the benchmark itself carries unacceptable risk.
- Use meaningful allocations. Small token positions rarely change client outcomes.
- Manage liquidity deliberately. Clients should not be forced sellers of long-term assets.
- Remain flexible. The portfolio should adapt as valuations, risks and client circumstances change.

What Clients Should Expect

Clients should expect that our portfolios may not always look like a typical industry super fund, balanced fund or index portfolio. There will be periods when mainstream markets perform strongly and our approach may lag. That is a deliberate trade-off.

We are not trying to win every short-term performance contest. We are trying to build portfolios that can meet client objectives through a range of environments, including difficult ones.

When markets are difficult, the philosophy and adherence to a process matter. Clients should understand why they own each major exposure and what role it is intended to play before the stressful period arrives.

The Key Questions Are:

What role does this asset play?

What risk is it intended to reduce?

What environment should it perform well in?

What could go wrong?

Is the position large enough to matter?

Final Message

Our philosophy is simple: invest to achieve the client's real-life objectives, protect against the risks that can permanently damage those objectives, and preserve purchasing power through time.

We believe the investment environment ahead is unlikely to be the same as the one that benefited traditional portfolios over the past several decades. For that reason, we are prepared to hold portfolios that look different from the mainstream.

That does not mean taking reckless risk. It means being deliberate about which risks are worth taking, which risks should be avoided, and how each part of the portfolio contributes to the client's broader financial plan.

The purpose of investing is not to own what everyone else owns. The purpose is to help clients live the life they want, with capital managed in a way that is realistic, disciplined and resilient.

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