

NZFUNDS

NZ Funds

Advised Portfolio Service

Other Material Information

9 April 2020

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1. BACKGROUND

This document tells you more about the funds (Portfolios) offered under the NZ Funds Advised Portfolio Service (formerly known as the NZ Funds Managed Portfolio Service). It should be read together with the Product Disclosure Statement (PDS), Statement of Investment Policy and Objectives (SIPO) and any other documents held on the offer and scheme registers at disclose-register.companiesoffice.govt.nz.

In this document, 'you', 'your', 'investor' or 'unit holder' means a person or entity that invests in a Portfolio, and 'NZ Funds', 'we', 'us', 'our' or 'the Manager' means New Zealand Funds Management Limited. When we use the word 'current' or 'currently' about a law, policy, or practice we mean at the date of this document. The information in this document may change. Please check the offer register at disclose-register.companiesoffice.govt.nz for any updates.

2. NZ FUNDS ADVISED PORTFOLIO SERVICE

The NZ Funds Advised Portfolio Service is a series of actively managed Portfolios. Nine Portfolios are offered across four investment categories:

CATEGORY	PORTFOLIO
Cash	Core Cash Portfolio
Income	Core Income Portfolio
	Global Income Portfolio
Inflation	Core Inflation Portfolio
	Equity Inflation Portfolio
	Property Inflation Portfolio
Growth	Core Growth Portfolio
	Global Equity Growth Portfolio
	Dividend and Growth Portfolio

The Portfolios are not designed to be used as stand-alone investments. They are designed to be combined in different ways in order to achieve different investment outcomes depending on how a client wishes to approach investing.

The Portfolios are established within two managed investment schemes (Schemes) registered under the Financial Markets Conduct Act 2013 (FMC Act). The Core Inflation Portfolio and Equity Inflation Portfolio are established within the 'NZ Funds Managed Portfolio Service Part One' scheme. All other Portfolios are established within the 'NZ Funds Managed Portfolio Service Part Two' scheme.

Each Scheme is managed under the rules set out in its trust deed, also called the governing document (Trust Deed). You can get a copy of each Trust Deed from the scheme register at disclose-register.companiesoffice.govt.nz.

3. THE MANAGER

About NZ Funds

NZ Funds is the manager of the Portfolios. We are licensed by the Financial Markets Authority (FMA) to be a manager of registered managed investment schemes under the FMC Act.

NZ Funds is wholly owned by Investment Group Holdings Limited (IGHL). IGHL is owned by interests associated with its directors and by the NZ Funds Executive Trustee Company Limited as trustee of the IGHL Trust. The beneficiaries of the IGHL Trust are mainly senior management of NZ Funds.

Our directors

Gerald Noel Siddall (LLB) is a non-executive director and Chairman of NZ Funds. Gerald has more than 35 years' experience in the financial services industry in New Zealand and overseas. He co-founded NZ Funds in 1988 and was responsible for building and leading NZ Funds until 2009. He was previously a director of NZ Funds until March 2010. He was reappointed as a director of NZ Funds on 21 March 2016. Gerald is not an employee of NZ Funds and is not an independent director as he has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

Gregory Bernard Horton (LLB (Hons), BCom) is an independent director of NZ Funds. Gregory was appointed a director of NZ Funds in May 2013. Gregory is special counsel and a shareholder of Harnos Horton Lusk Limited, a law firm based in Auckland. He has practised law both in New Zealand and overseas. Gregory has an indirect ownership interest in NZ Funds through the IGHL Trust.

Michael John Lang (BA (Econ), LLB (Hons), CFA) is a director and Chief Executive of NZ Funds. Michael joined NZ Funds in 1993. He left to work overseas in 2003 and returned in 2008. Michael became a director of NZ Funds in 2010 and was appointed Chief Executive on 1 October 2018. Michael is not an independent director as he is an employee of NZ Funds and has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

Richard Stuart Taylor James (Dip. Bus. (Finance)) is a director and consultant to NZ Funds. Richard originally joined NZ Funds as an employee in 1993 and became a director of NZ Funds in August 2006. He was appointed as a consultant on 1 October 2018, having previously been Chief Executive of NZ Funds since 2009. Richard is not an independent director as he has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

Russell William Tills (BCom, ACA) is a non-executive director of NZ Funds. Russell has more than 35 years' experience in the financial services industry in New Zealand and overseas. He joined NZ Funds in 1989 and, along with Gerald Siddall, was responsible for building and leading NZ Funds until 2009. He was a director of NZ Funds until March 2010. He was reappointed as a director of NZ Funds on 21 March 2016. Russell is not an employee of NZ Funds and is not an independent director as he has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

John Lindsay Cobb (PG Dip (Business Finance), NZX Diploma, Level 1 and 2, ASX Derivatives qualification) is an independent director of NZ Funds. He was appointed a director of NZ Funds on 1 February 2019. John has had a 20-year career in share broking and investment banking, and now works with a number of small businesses assisting with growth and investment.

Our directors may change from time to time. You can find the names of our directors at companies-register.companiesoffice.govt.nz.

4. OTHER PARTIES

Supervisor

The New Zealand Guardian Trust Company Limited is the supervisor (Supervisor) of the Portfolios. The Supervisor is licensed by the FMA to act as a supervisor of registered managed investment schemes under the Financial Markets Supervisors Act 2011. More information on their licence is available on the FMA's website at www.fma.govt.nz.

The Supervisor's current directors are Robin Albert Flannagan and James Earl Douglas. The Supervisor's directors may change from time to time. You can find the names of the Supervisor's directors at any time at companies-register.companiesoffice.govt.nz.

Custodian

The Supervisor is responsible for holding the property of the Portfolios. The Supervisor has entered into custodial services agreements with Citibank N.A. to provide custodial services to the Portfolios, however, all property of the Portfolios is currently held by the Supervisor.

Auditor

The auditor is Ernst & Young. Ernst & Young is registered under the Auditor Regulation Act 2011.

Solicitors

The solicitors are Russell McVeagh.

5. SUPERVISOR AND MANAGER INDEMNITY

Subject to the limits on permitted indemnities under the FMC Act, both we and the Supervisor are indemnified out of the Portfolios for all losses, costs and expenses incurred by us or the Supervisor in carrying out our roles as manager and supervisor.

This indemnity does not cover losses, costs and expenses arising from our wilful default, wilful breach of trust, fraud or gross negligence. More information is set out in the Trust Deeds.

6. OTHER KEY TERMS

This section summarises some of the key terms used in the Portfolios. For more detailed information, please see the Trust Deeds.

Valuation and unit pricing

Calculating a unit price allows us to value your investment in a Portfolio. Each Portfolio's unit price is calculated by dividing the net asset value of that Portfolio by the number of units issued to investors. The net asset value is the value of a Portfolio's assets less its liabilities.

The Trust Deeds set out the principles that apply to the valuation of a Portfolio's assets and calculation of net asset value. We generally calculate the net asset value of a Portfolio each business day. We may use the calculated unit price at the end of any month for up to two business days after the month ends.

We may set valuation methods and policies for each category of asset and change them from time to time. The Supervisor approves these valuation methods and policies and we will tell the Supervisor if we make any changes. Sometimes we use estimates to value assets, for example, where assets are priced monthly, or where assets become illiquid (difficult to convert to cash) or are not regularly traded.

Specific transactions (for example, large transactions) may require us to adjust the unit price for that day so that the costs of those transactions are paid by the investors involved in those transactions. We do not currently charge transaction costs.

Issuing units

We may decline to accept any application for units in a Portfolio and do not have to give a reason for declining an application. We may also defer accepting any application by up to two business days.

The process for investing in the Portfolios is explained in the PDS. Application amounts are paid into a non-interest bearing bank account and will be applied to the relevant Portfolios once the application is accepted. Application amounts must be in New Zealand dollars.

There are currently no minimum or maximum investment amounts. We will tell you if we introduce a minimum or maximum investment amount.

Withdrawals

Subject to current withdrawal restrictions and our right to defer or suspend withdrawals, we will redeem your units in a Portfolio under the procedures in the Trust Deeds where you give us a valid withdrawal request. You cannot cancel a withdrawal request unless we agree.

We may introduce restrictions and limitations on withdrawals. Currently, all Portfolios (other than the Core Cash Portfolio) have a 21 day withdrawal notice period. This means you must give us 21 days' notice of your intention to withdraw, unless you are switching to another Portfolio in which case you can generally switch your investment at any time. We may change these notice periods without notifying you.

Withdrawal payments are based on the unit price for each unit redeemed (Redemption Price). If a withdrawal notice period applies, we will calculate the Redemption Price for the day the notice period expires (or if that day is not a business day, on the next business day).

If there is no withdrawal notice period, we will calculate the Redemption Price for the day we receive your withdrawal request so long as that day is a business day and your withdrawal request is received before 2pm. If your withdrawal request is received after 2pm or on a day that is not a business day, we will calculate the Redemption Price for the next business day.

Under the Trust Deeds, we must pay withdrawals within 20 business days of the date the withdrawal request is accepted (subject to our right to defer or suspend withdrawals). However, we normally pay withdrawals within four business days of the date the withdrawal request is accepted. We may defer withdrawals for up to two business days.

Switches

A switch is considered a withdrawal from one Portfolio and an application for units in another Portfolio. There are currently no notice periods for switches so you can generally switch your investment at any time (subject to our right to defer or suspend switches).

We normally process switch requests within two business days of receipt. We may defer processing some or all switch requests for up to 21 days if we consider it necessary or appropriate. Where a switch request is deferred, we will calculate withdrawal proceeds on the date the switch request is processed, not on the date we receive the switch request.

Deferring and suspending withdrawals and switches

Where we get withdrawal or switch requests for more than 10% of a Portfolio's units on a particular date (excluding the Core Inflation Portfolio and Equity Inflation Portfolio), we may 'scale back' requests so that only some of the units are redeemed. Any units not redeemed may be redeemed by us at any time. There is no specific time period in which we must redeem these units.

In certain circumstances, we may also suspend withdrawals and switches by giving a redemption suspension notice. For example, if we think it is not practicable, or would be materially prejudicial to the interests of any unit holders, to sell assets for redemptions. This could be due to market conditions, the nature of any asset or other circumstances.

If we give a redemption suspension notice, this means all withdrawal and switch requests are suspended until we tell you the suspension is cancelled.

Except for the Core Inflation Portfolio and Equity Inflation Portfolio, there is no limit on the suspension period for any Portfolio. The maximum suspension period for the Core Inflation Portfolio and Equity Inflation Portfolio is 90 days although we can extend this with the Supervisor's agreement.

Even if we give a redemption suspension notice for a Portfolio, we may allow you to withdraw:

- If, in our reasonable opinion, suspending your withdrawal or switch request would cause you financial hardship;
- If you have a regular withdrawal arrangement with us; or
- In any other circumstances, we consider reasonable.

Closing your investment

In some circumstances, we may need to redeem all your units or close your investment in a Portfolio. For example, if we consider it is necessary to comply with any laws or to avoid adverse regulatory consequences for us, the Supervisor, the Portfolio or investors in the Portfolio generally.

We may also redeem all your units if your withdrawal request would leave you with less than the minimum holding, or where it is necessary to maintain a Portfolio's PIE status.

Borrowing

Borrowing is allowed under the Trust Deeds. However, the Portfolios do not currently borrow money for the purpose of investing. This does not include ongoing operational agreements with service providers such as overdraft facilities and creditor relationships.

Winding-up/insolvency

If a Portfolio is wound up or becomes insolvent, the assets of the Portfolio will be sold and the money will be used first to meet the claims of any creditors. After all creditors have been paid, your share of what remains will be paid to you.

Indemnity for tax liability

You are required to repay us and the Supervisor for any tax paid on your behalf on income from your investment in a Portfolio. This only applies if your investment is not sufficient to meet your tax liability.

Changes to Trust Deeds

The Trust Deeds can be changed by us and the Supervisor. Any changes must comply with the FMC Act.

7. MORE ABOUT FEES AND CHARGES

Annual fund charges

Estimated annual fund charges are included in section 5 of the PDS and are made up of a base fee, service charges, external manager charges, and NZ Funds' performance charge.

In addition to annual fund charges, transaction costs of buying and selling assets (e.g. brokerage) are paid directly by the Portfolios or underlying funds and reflected in the unit price.

Base fee

Each Portfolio is charged an annual base fee by us. This covers our services in managing and administering the Portfolio, including investment management, unit pricing, registry management and other costs such as marketing, printing and postage.

The Portfolios invest in underlying funds managed by us (Wholesale Trusts) however we do not charge separate management fees for those Wholesale Trusts. We may charge a performance-based fee in certain Wholesale Trusts – see 'NZ Funds' performance charge' below.

The base fee is calculated daily and paid monthly. The current base fees are:

PORTFOLIO	BASE FEE* (P.A.)
Core Cash Portfolio	0.58%
Core Income Portfolio	1.42%
Global Income Portfolio	1.42%
Core Inflation Portfolio	2.80%
Equity Inflation Portfolio	2.47%
Property Inflation Portfolio	2.84%
Core Growth Portfolio	2.47%
Global Equity Growth Portfolio	2.49%
Dividend and Growth Portfolio	2.79%

* As a percentage of the gross asset value of each Portfolio.

We may change the base fee at any time so long as we tell investors one month before we increase the base fee. We may also charge an investor, or group of investors (including any group of investors advised by a financial adviser), lower base fees than those above, or we may rebate all or some of our base fees for that investor or group of investors. Please see below details of fee rebates available for the Portfolios.

Fee rebate (from 1 April 2020)

From 1 April 2020, we will rebate a portion of our base fee from our own funds based on the total amount you have invested in the Advised Portfolio Service and managed investment products offered by us under the NZ Funds KiwiSaver Scheme, NZ Funds Managed Superannuation Service, and NZ Funds WealthBuilder (your total investment).

If your total investment is between \$1,000,000 and \$3,000,000, we will give you a base fee rebate of up to 0.42%. If your total investment is more than \$3,000,000, we will give you a base fee rebate of up to 1.72%.

The base fee rebate you are entitled to is based on your total investment at each calculation date. This means that contributions, withdrawals and market movements may influence your rebate entitlement. We may also extend the rebate calculation to include your related accounts.

The base fee rebate will be calculated daily based on your investment balance and paid monthly by giving you extra units in the relevant Portfolios. The rebate will generally be paid on the 25th of each month. If you fully withdraw from the Portfolios before we pay any fee rebate, you will no longer be entitled to that rebate.

We may change the rate and basis for calculating the base fee rebate, or remove the rebate, at any time. If we decrease the rebate rate or remove the rebate, we will give one month's notice to investors affected by the change.

Service charges

Supervisor fee

The Supervisor charges a fee for its services. The Supervisor's fee for each Portfolio is currently up to 0.04% per annum of the gross asset value of the Portfolio. Supervisor fees are calculated daily and paid by the Portfolios monthly. Estimates of the Supervisor's fees are included within 'annual fund charges' in the PDS. The Supervisor may, if we agree, change the Supervisor fee at any time so long as we or the Supervisor give one month's notice to investors.

Other third party service charges

The Portfolios and the Wholesale Trusts that they invest in may incur other third party charges for services such as legal, audit and custody. These third party service charges are paid out of the assets of the Portfolio or Wholesale Trust. Estimates of these charges are included within 'annual fund charges' in the PDS.

External manager charges

The Portfolios may invest in underlying funds managed by external specialist investment managers (external managers) which may charge fees (including entry fees, exit fees, management and administration fees, and performance fees), and incur expenses. The returns of a Portfolio you are invested in will be indirectly affected by these fees and expenses. The annual fund charges in the PDS include the following estimated external manager charges:

PORTFOLIO	ESTIMATED EXTERNAL MANAGER CHARGES*
Core Cash Portfolio	n/a
Core Income Portfolio	0.00%
Global Income Portfolio	0.05%
Core Inflation Portfolio	0.00%
Equity Inflation Portfolio	0.38%
Property Inflation Portfolio	0.00%
Core Growth Portfolio	0.41%
Global Equity Growth Portfolio	0.38%
Dividend and Growth Portfolio	0.00%

* As a percentage of the net asset value of each Portfolio. In calculating these charges, an estimate of the maximum level of contribution we will make to the external manager charges for each Portfolio is included.

An external manager will typically only charge a performance fee when its investment return outperforms a benchmark or a performance hurdle (which may be 0%). The above estimates include performance fees which are based on an assumption of the likely outperformance of the current external managers.

Estimates of other fees and expenses are based on fee information provided by the current external managers. Assumptions on the percentage of each Portfolio invested in external managers are based on the Portfolios' current target allocations.

The external managers and the Portfolios' allocation to those managers will change from time to time. Actual fees will depend on the managers selected, their performance, and the Portfolios' allocation to those managers, and will vary from the estimates.

NZ Funds' performance charge

None of the Portfolios are charged a performance fee directly by us. However, where specific performance targets are met, we may charge a performance fee in certain Wholesale Trusts that the Portfolios invest in.

The Wholesale Trusts where a performance fee is charged and the Portfolios that currently invest in those Wholesale Trusts is detailed in the following table:

	PRIVATE CORE INCOME TRUST	PRIVATE GLOBAL INCOME TRUST	PRIVATE PREFERRED INCOME TRUST	PRIVATE DIVIDEND YIELD TRUST
Core Cash Portfolio				
Core Income Portfolio	✓			
Global Income Portfolio		✓		
Core Inflation Portfolio			✓	✓
Equity Inflation Portfolio			✓	
Property Inflation Portfolio			✓	
Core Growth Portfolio				
Global Equity Growth Portfolio				
Dividend and Growth Portfolio				✓

The performance fee for each Wholesale Trust is calculated daily and reflected in the unit price of the Wholesale Trust. Performance fees are paid within 30 days of 31 March each year. A high-water mark applies to the performance fee of each Wholesale Trust as described in the PDS. The high-water mark cannot be reset.

The Wholesale Trusts use recognised market indices as their performance hurdle rates of return. Out-performance of these market indices, whether the market indices return is positive or negative, will result in a performance fee even though the unit price may be below the last high-water mark.

The performance returns of each Wholesale Trust are calculated on a before tax basis and include imputation credits (where applicable). The following notional base fees are deducted from returns:

- For the Private Dividend Yield Trust, 0.40% of net asset value per annum; and
- For the other Wholesale Trusts, 0.20% of net asset value per annum.

Below is an example of the Private Dividend Yield Trust performance fee. It is a simplified example of how the performance fee is calculated in different scenarios. It is for illustration only and is not an indication of actual or forecast investment returns.

Example of Private Dividend Yield Trust performance fee

	INVESTMENT PERFORMANCE	MARKET PERFORMANCE	RELATIVE PERFORMANCE	PERFORMANCE FEE	INVESTMENT AT BEGINNING OF PERIOD (AFTER PERFORMANCE FEE)	INVESTMENT AT END OF PERIOD (BEFORE PERFORMANCE FEE)	OUT PERFORMANCE	UNDER PERFORMANCE BROUGHT FORWARD	PERFORMANCE FEE ACCRUED	PERFORMANCE FEE PAID	UNDER PERFORMANCE CARRIED FORWARD
Y1	10.0%	8.0%	2.0%	0.3%	\$10,000.00	\$11,000.00	\$200.00	NIL	\$30.00	\$30.00	NIL
Y2	8.0%	10.0%	-2.0%	NIL	\$10,970.00	\$11,847.60	NIL	NIL	NIL	NIL	-\$219.40
Y3	-10.0%	-15.0%	5.0%	0.8%	\$11,847.60	\$10,662.84	\$592.38	-\$219.40	\$55.95	NIL	NIL
Y4	15.0%	15.0%	0.0%	NIL	\$10,606.89	\$12,197.93	NIL	NIL	NIL	\$55.95	NIL

In this example, the performance fee of the Private Dividend Yield Trust (Trust) is 15% of the amount by which its performance (with imputation credits but before tax and after deduction of a notional base fee) exceeds the hurdle rate of return. In year one, the Trust outperforms the benchmark accruing a performance fee which is paid at the end of the performance period and a new high-water mark set. In year two, the Trust underperforms the benchmark and consequently no performance fee is accrued. Any relative underperformance is carried forward and must be recovered before any future performance fee is accrued. This is illustrated in year three, when the Trust performs above the benchmark and the year two underperformance is recovered. As the outperformance in year three exceeds the underperformance from year two, a performance fee is accrued in year three. However, no performance fee is paid at the end of year three as the Trust is below the last high-water mark (set in year one). The performance fee accrued in year three is not paid until the end of year four, when the Trust exceeds the high-water mark. A new high-water mark is set at the end of year four.

The annual fund charges in the PDS include the following estimated NZ Funds' performance charge:

STRATEGY	ESTIMATED NZ FUNDS' PERFORMANCE CHARGE*
Core Cash Portfolio	n/a
Core Income Portfolio	0.05%
Global Income Portfolio	0.00%
Core Inflation Portfolio	0.06%
Equity Inflation Portfolio	0.02%
Property Inflation Portfolio	0.02%
Core Growth Portfolio	0.00%
Global Equity Growth Portfolio	0.00%
Dividend and Growth Portfolio	0.07%

* As a percentage of the net asset value of each Portfolio.

These estimates are based on the following assumptions:

- For the Private Preferred Income Trust, an assumption that the trust will achieve an average return of 1% p.a. above the trust's performance benchmark;
- For the Private Core Income Trust, Private Global Income Trust, and Private Dividend Yield Trust, the last five years' returns (ended 31 March 2018) of each trust compared to each trust's performance benchmark; and
- Assumptions on the percentage of each Portfolio invested in the Wholesale Trusts that charge performance fees are based on current target allocations.

The estimates are not intended to indicate any expected returns or fees. Actual performance fees will vary from the estimates.

Actual fees for the most recent year are available in the latest fund update which you can get from our website at www.nzfunds.co.nz.

All performance fees paid to us by the Wholesale Trusts are on arm's length terms and meet the requirements for related party transactions in the FMC Act.

Expense reimbursement

The Trust Deeds allow us, the Supervisor, and any parties that may be appointed by us or the Supervisor, to be reimbursed for all expenses properly incurred while carrying out our duties.

Apart from third party service charges, we pay all ordinary expenses from the fees we receive and do not charge these expenses to the Portfolios. We may charge extraordinary or unusual expenses to the Portfolios.

Basis for estimates of fund charges in PDS

The annual fund charges in the PDS include estimates of Supervisor fees, other third party service charges, external manager charges, and NZ Funds' performance charge.

Estimates of external manager charges and NZ Funds' performance charge are discussed above. All other estimates are based on the assumption that the ongoing level of these charges will be similar to those charged in the most recent financial year.

Actual annual fund charges for each Portfolio for the most recent year are available in the latest fund update which you can get from our website at www.nzfunds.co.nz.

Individual action fees

We do not charge any establishment, contribution, termination, withdrawal, switch or transfer fees.

Financial adviser fees

Your financial adviser may charge fees for financial advisory services they provide. These fees, including how and when the fees are paid, should be agreed between you and your financial adviser before an investment is made.

Details of these fees must be set out in your financial adviser's disclosure statement. These fees are payable by you to your financial adviser, and may, if you agree, be deducted from your investment.

Where you have selected a financial adviser employed by NZ Funds, we may charge a fee for financial advisory services in the same way as set out above.

NZ Funds onboarding and administration payment

We may pay financial advisers an onboarding and ongoing administration payment in recognition of the effort and costs associated with providing services to you regarding your investment in the NZ Funds Advised Portfolio Service. We make these payments out of our own funds and do not deduct these from the Portfolios or your investment.

GST

All fee estimates do not include GST or other similar tax. This means that if any GST or other similar tax is payable, it will be in addition to the amount of the stated fee.

Contribution to fees

In addition to our fee rebate and contribution to external manager charges, we may from our own funds, reduce, pay, contribute to or rebate some or all of the fees and expenses in this section.

8. ECONOMIC EXPOSURE

Economic exposure is a measure developed and used by us to illustrate Portfolio's total exposure. The use of derivatives can result in a Portfolio's economic exposure being greater than its net asset value, which means the Portfolio is leveraged.

We currently limit the economic exposure for the Core Cash Portfolio to 100% (or the Portfolio's net asset value), and for each of the Core Income Portfolio, Global Income Portfolio, Core Inflation Portfolio, Equity Inflation Portfolio, and Property Inflation Portfolio to 300% (or three times the Portfolio's net asset value).

There is no limit on economic exposure for the Core Growth Portfolio, Global Equity Growth Portfolio, and Dividend and Growth Portfolio. Each Portfolio's economic exposure is published in our 'Portfolio Insights' document which is available from our website at www.nzffunds.co.nz.

9. RISKS

Every investment has risks. The primary risks of investing in a Portfolio include:

- Not getting back some or all of your money;
- Not getting the returns you expected;
- Experiencing periods where your investment is worth less than it was previously; and
- Not being able to withdraw from a Portfolio when you want to.

The following information is in addition to section 4 of the PDS – “What are the risks of investing?”. In the PDS, we discuss what we believe are the more significant risks of investing in the Portfolios. However, there are other risks associated with the Portfolios that could impact your investment which are discussed below. If any of these risks eventuate, a Portfolio may be adversely affected and you could receive back less than you invested.

No rate of return or repayment of your investment is guaranteed by NZ Funds, the Supervisor, or any other person.

General investment risks

Interest rate risk

This is the risk that a Portfolio's returns may fluctuate as a result of changes in interest rates.

Credit risk

This is the risk that a Portfolio's returns may fluctuate as a result of an issuer of a security failing to pay interest or principal when due.

Equity risk

This is the risk that a Portfolio's returns may fluctuate as a result of changes in the value of equity investments. An equity investment may be affected by many factors, including the performance of the relevant company, market opinion, and the economic performance of a country or sector.

Political risk

This is the risk that a Portfolio's returns may fluctuate as a result of political changes or instability in a country. This could arise from a change in government, legislative bodies, other foreign policy makers, or military actions. Political risk may also arise as a result of geo-political events such as wars, terrorist acts and tensions between states.

Other risks

Counterparty risk

This is the risk that a party to a financial transaction or contract involving a Portfolio fails to meet its obligations.

Operational risk

This is the risk of failure of internal or external processes, people, policies, technology or systems (for example, a material error in the pricing process), or external events affecting our or the Portfolios' operations. If this occurs, the Portfolios may be adversely affected.

Cybersecurity risk

Cybersecurity risk is the risk of attack, damage or unauthorised access to the networks, computers, programs or data that we use.

Service provider risk

This is the risk that a key service provider to the Portfolios (for example, the Supervisor, the Manager, the trustees and custodian of the Wholesale Trusts, external managers, settlement and trade counterparties, investment brokers and banks) fail to perform their obligations.

Wholesale Trust investment risk

The Portfolios can invest in Wholesale Trusts. Wholesale Trust investment risk is the risk that an adverse event happens at the Wholesale Trust level or the Wholesale Trusts are wound up.

Valuation risk

The Portfolios' unit prices are based on market price information provided by various sources. Valuation risk is the risk that these sources fail to provide an accurate price, or any price whatsoever.

Suspension of withdrawals risk

In certain circumstances, we can suspend or partially suspend withdrawals from a Portfolio. If this happens, you may not be able to withdraw or switch your investment when you want to.

Risk of losing PIE tax status

Each Portfolio is currently a Portfolio Investment Entity (PIE). If a Portfolio loses its PIE tax status, your after-tax benefit from investing in the Portfolio may be reduced.

Tax risk

Income, dividends and interest, and gains on securities and investments that the Portfolios invest in may be subject to taxes (including withholding taxes) imposed by tax authorities in New Zealand and other jurisdictions. The Portfolios may not be able to claim a credit for these taxes.

Regulatory risk

This is the risk that the laws and regulations applying to the Portfolios and their investments change in a way that adversely affects a Portfolio.

Insolvency risk

This is the risk of a Portfolio becoming insolvent or being otherwise unable to meet its financial obligations.

COVID-19, virus, disease or other widespread health risks

There is the risk that the Portfolios' returns may fluctuate, or that the Portfolios may be adversely affected, as a result of virus, disease or other widespread health risks such as the COVID-19 pandemic. The emergence of COVID-19 (or other widespread health risks) can have a significant impact on financial markets.

The effects of widespread health risks, such as COVID-19, may also adversely impact the operations of NZ Funds and/or key service providers to the Portfolios. For example, they may adversely impact our ability to calculate a Portfolio's net asset value. The expected duration and magnitude of the COVID-19 pandemic and/or other potential widespread health risks, and the severity and range of their potential impact on your investment, are uncertain.

The risks described in the PDS and this document are considered to be important risks, but do not cover all known risks of investing in the Portfolios. There may also be other risks which are currently unknown that may affect your investment in the Portfolios.

10. CONFLICTS OF INTEREST

Our Conflicts of Interest Policy provides a framework for identifying, declaring and managing actual or potential conflicts of interest. The policy also covers gifts and hospitality and forms part of our broader conflicts of interest compliance and ethics framework.

The Conflicts of Interest Policy is complemented by our Personal Holdings Policy and our Related Party Transactions Policy. Our Personal Holdings Policy contains restrictions on employees holding or trading in securities. Our Related Party Transactions Policy provides a framework for identifying and managing related party transactions and ensures that all related party transactions comply with the FMC Act.

In addition to these policies and procedures, the FMC Act imposes controls on conflicts of interest, including that we must:

- Act with the care, diligence and skill that a prudent person engaged in the profession of acting as manager of a registered scheme would exercise in those circumstances;
- Act honestly, in the best interests of investors; and treat investors fairly; and
- Not use information that we get as manager to gain an improper advantage for ourselves (or any other person) or to cause harm to investors.

A conflict of interest that currently exists is in relation to those Portfolios that invest in Wholesale Trusts where we charge a performance fee. These performance fees will affect the value of the Wholesale Trusts, and indirectly the returns of the Portfolios.

This conflict of interest could materially influence the investment decisions we make for the Portfolios if non-arm's length fees were paid. We manage this conflict by making sure that all related party performance fee transactions comply with the FMC Act and our Related Party Transactions Policy.

11. HOW YOUR INVESTMENT IS TAXED

If you have any questions about your tax position as a result of investing in the Portfolios, we encourage you to talk to your tax adviser before investing. We and the Supervisor do not take any responsibility for your tax position as a result of investing in a Portfolio.

Portfolio Investment Entities (PIEs)

Each Portfolio has chosen to be a Portfolio Investment Entity (PIE). Under the PIE rules, we will calculate the tax due on your investment in a Portfolio each quarter based on your Prescribed Investor Rate (PIR), and unless you have chosen a PIR of 0% (or if we have treated you as having a PIR of 0%), we will pay this tax to Inland Revenue on your behalf.

If you are due a tax refund, we will use it to buy more units in the Portfolio for you, as long as you are still invested in the Portfolio when we receive the refund from Inland Revenue. If you are no longer invested in the Portfolio, we will pay the refund to you.

If you have a PIR of 0%, we will tell you your share of the income of the Portfolio, but you will be responsible for your own tax.

Choosing your PIR

You need to choose your PIR and tell us what it is. You also need to tell us your IRD number.

For an individual, your PIR is based on your taxable income and PIE income for each of the previous two tax years. Your PIR is based on the year which has the lower combined income amount. You can use the table on the following page to help you work out your PIR:

TAXABLE INCOME			TAXABLE INCOME + PIE INCOME	PIR
\$0 – \$14,000	AND		\$0 – \$48,000	10.5%
\$0 – \$14,000	AND		\$48,001 – \$70,000	17.5%
\$14,001 – \$48,000	AND		\$0 – \$70,000	17.5%
Over \$48,001	AND		Any amount	28.0%
Any amount	AND		Over \$70,000	28.0%

It is important that you choose the correct PIR. If you select a PIR that is too high, you will be able to get any overpaid tax refunded (either directly or by a reduced tax bill) as part of the annual tax return process. If you select a PIR that is too low, you will have to pay more tax on your income from a Portfolio at your correct PIR.

Different rules for choosing a PIR apply for trusts and companies:

- Testamentary trusts (one set up under a will) can choose a PIR of 0%, 10.5%, 17.5% or 28%.
- All other trusts can choose a PIR of 0%, 17.5% or 28%.
- Companies and all other types of entities must choose a PIR of 0%.

If you do not tell us what your PIR is, we will set it at 28% (unless you are a company, when we will set it to 0%). You can change your PIR at any time by contacting us or your financial adviser.

Inland Revenue may also tell us to change your PIR if they think it is wrong. If they do, we must use the PIR that they tell us, unless you tell us to use a different rate.

Sometimes we can treat you as having a 0% PIR. We will do this where:

- Your tax liability is greater than the value of your interest in the Portfolio. Where this happens, we will cancel all of your Units and pay the proceeds to Inland Revenue. You will have to pay any tax liability not covered by this amount.
- You reduce your holding in, or fully withdraw from, a Portfolio during the quarter, or in the first 5 days of the following quarter.

12. PRIVACY AND USE OF YOUR PERSONAL INFORMATION

Privacy

The Privacy Act 1993 deals with how we store and use the personal information you give us in connection with your investment in the Portfolios.

This information may be used by us (including our related entities) and the Supervisor and shared with and used by your financial adviser and by other service providers to the Portfolios for the purposes of arranging, managing and administering your investment, contacting you about your investment, and providing you with newsletters and information about other products and services.

We may also use and share your personal information for the purposes of complying with any laws in New Zealand or another country, including using it to verify (whether by electronic means or otherwise) your identity.

We may also be required to provide it to government agencies including the FMA and Inland Revenue. You have the right to access and correct any of your personal information held by us.

AML/CFT requirements

Under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, we are required to verify your identity and address and, in some cases, the source of your funds and wealth.

If you complete the Application Form with a financial adviser, they may be able to verify your identity and address using certain identification documents and the process set out in the Application Form. We or your adviser may also be able to verify your identity and address electronically.

If you are completing the Application Form without a financial adviser, your identification documents may be certified by a 'trusted referee' or verified by an NZ Funds employee. More information on certification by trusted referees is set out in the Application Form.

AML verification requirements also apply to trusts, companies and other entity types. We have developed various "AML forms" for these purposes which are available on our website at www.nzfunds.co.nz and which will guide you through the AML process. A combination of AML forms will need to be used for these entities. Your financial adviser can help you complete these forms.

We cannot process your application unless all required forms are completed correctly and all required information and documents are included.

Foreign Account Tax Compliance Act (FATCA)

If you are a "US Person" (that is, someone who is a United States citizen or tax resident, or a United States Green Card holder, or an entity owned or controlled by US persons) we may be required to provide information about your investment to Inland Revenue to comply with our obligations under the Foreign Account Tax Compliance Act (FATCA). Inland Revenue in turn may be required to pass this information to the United States Internal Revenue Service.

Common Reporting Standard (CRS)

If you are tax resident in a country other than New Zealand, or an entity owned or controlled by non-New Zealand tax residents, we may be required to provide information about your investment to Inland Revenue to comply with our obligations under the Common Reporting Standard (CRS) regime. Inland Revenue in turn may be required to pass this information to the revenue authority of the country in which you are tax resident.

Change of personal details

If you wish to change your personal details, please complete a Changes in Client Details form. You can get this form from your financial adviser or our website at www.nzfunds.co.nz.

13. MATERIAL CONTRACTS

Trust Deeds

The Trust Deeds are agreements between us and the Supervisor that set out the rules for the management and administration of the Schemes and the Portfolios. A copy of each Trust Deed is available on the scheme register at disclose-register.companiesoffice.govt.nz.

Management Agreement

We have a management agreement with the Supervisor that sets out the operational arrangements for the Schemes and the Portfolios, including what information we have to report to the Supervisor, how the Portfolios' bank accounts will be operated, and what records we have to keep.

14. MORE ABOUT MARKET INDICES

More information about the market indices noted in the SIPO can be found on the web pages listed below:

S&P/NZX Investment Grade Corporate Bond Index Total Return	www.eu.spindices.com/indices/fixed-income/sp-nzx-investment-grade-corporate-bond-index
Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD	www.bloomberg.com/quote/LGCPTRUU:IND
S&P/NZX Bank Bills 90 Day Index Total Return	www.us.spindices.com/indices/fixed-income/sp-nzx-bank-bills-90-day-index
S&P/NZX 50 Portfolio Index Gross with Imputation	www.us.spindices.com/indices/equity/sp-nzx-50-portfolio-index
S&P/ASX Accumulation 200 Index	www.us.spindices.com/indices/equity/sp-asx-200
MSCI All Countries World Daily TR Net Local Currency	www.msci.com/acwi

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