

Quarterly Disclosure Statement 1 October 2012 to 30 September 2013

NZ Funds KiwiSaver Scheme Income Strategy

What is the purpose of this statement?

This statement provides key information about the NZ Funds KiwiSaver Scheme Income Strategy. It tells you how the fund has performed and what fees it charged, and will help you to compare it with other funds. We prepared this statement in accordance with the KiwiSaver (Periodic Disclosure) Regulations 2013. This information is not audited and may be updated.

Description of the fund

The objective of the Income Strategy is to provide greater stability to your investment, by primarily investing in income-oriented assets using an active investment management approach.

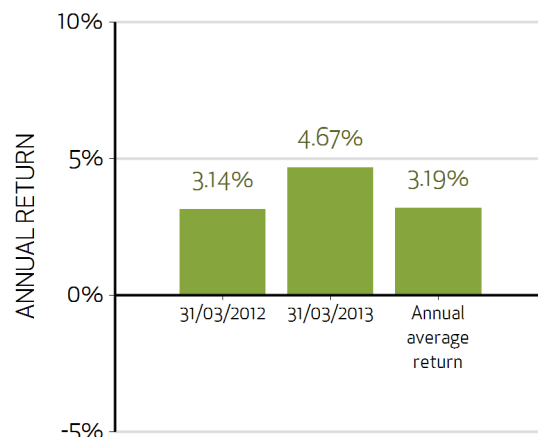
Total value of the fund	\$5,522,008
Number of members in the fund	3,564
Date the fund started	1 November 2010

How has the fund performed?

ANNUAL RETURN	Past year
(after deductions for fund fees and tax ¹)	2.37%

How has the fund performed in the past?

This shows the return after fund fees and tax for each tax year since the fund started and the average annual return since the fund started. It's important to note that this doesn't tell you how the fund will perform in the future.



What fees were members charged?

The returns above are after deductions for **fund fees**².

These fees were last totalled up for the year to 31 March 2013 and were:

Total fund fees	1.06% of members' investments
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Which are made up of:

Annual management fee	0.72%
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Performance-based fees	0.00%
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Other fees and costs ³	0.34%
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Members were also charged **membership fees**⁴ of **\$42.30** over the year to 31 March 2013.

Members may also be charged fees for specific actions or decisions (e.g. transferring funds). See www.nzfunds.co.nz/kiwisaver_policies.html for more information about these fees.

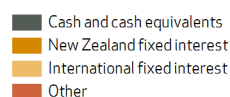
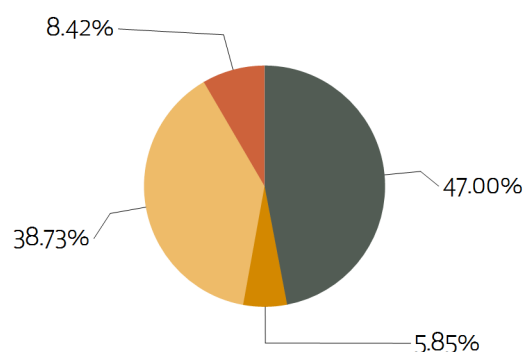
Example of how this applies to a member

Lucy had \$10,000 in the fund at the start of the year and didn't make any further contributions. At the end of the year, Lucy received a return after fund fees and tax were deducted of \$237.00 (that's 2.37% of her initial \$10,000). Lucy also paid \$42.30 in membership fees. This gives Lucy a total return of \$194.70 for the year.

What does the fund invest in?

Actual investment mix⁵

This shows the types of assets that the fund invests in.



Target investment mix

This shows the mix of assets that the fund generally intends to invest in.

Cash and cash equivalents	45%
New Zealand fixed interest	5%
International fixed interest	41%
Australasian equities	0%
International equities	0%
Listed property	0%
Unlisted property	0%
Other	9%

⁵'Other' includes foreign currency.

Top 10 investments

	Name	Percentage of fund net assets	Type	Country	Credit rating (if applicable)
1	Westpac 32 day term deposit	53.58%	Cash and cash equivalents	New Zealand	A-1+
2	PIMCO Global High Yield Fund	9.06%	Fund	Ireland	
3	Nordea 1 - US Total Return Bond Fund	8.73%	Fund	Luxembourg	
4	Templeton Global Bond Plus Fund	7.97%	Fund	Australia	
5	iShares iBoxx \$ High Yield Corporate Bond ETF	6.01%	Fund	United States	
6	BlackRock US Mortgage Portfolio	5.94%	Fund	United States	
7	PowerShares Senior Loan Portfolio	4.48%	Fund	United States	
8	Westpac current account	1.66%	Cash and cash equivalents	New Zealand	A-1+
9	Westpac forward contract bought NZD 15,139,835.94 sold USD 11,597,114.33	1.39%	Cash and cash equivalents	Australia	A-1+
10	Westpac forward contract bought NZD 11,931,622.50 sold USD 9,431,947.59	0.58%	Cash and cash equivalents	Australia	A-1+

The top 10 investments make up 99.41% of the fund.⁶

Key personnel

This shows the directors and employees who have the most influence on the investment decisions of the fund.

Name	Current position	Time in current position	Previous or other position	Time in previous or other position
Richard James	Chief Executive, Chair of the Investment Committee and a Director	5 years	Chief Operating Officer, New Zealand Funds Management Limited	6 years
David van Schaardenburg	Chair of the Portfolio Management Meeting and a Principal	5 years	Chief Investment Officer, New Zealand Funds Management Limited	11 years
Michael Lang	Chief Investment Officer and a Director	5 years	Partner, Eclectica Asset Management	2 years
David Wilson	Investment Strategist and a Principal	17 years	Chief Economist, JB Were	3 years
Mark Brooks	Head of Income and a Principal	6 years	Senior Portfolio Manager, Credaris	4 years

Further information

Information about conflicts of interest

There have not been changes to the nature, or increases in the scale of, the fund's related-party transactions compared with the last quarter. See the NZ Funds KiwiSaver Scheme annual financial statements for more information about the Scheme's related-party transactions; available at www.nzfunds.co.nz/kiwisaver_annual-reports.html

Changes to trade allocation, execution and proxy voting policies

There have not been changes to the fund's trade allocation, execution and proxy voting policies in the past three months. See www.nzfunds.co.nz/kiwisaver_policies.html for more information about these policies.

Changes to valuation methods

There have not been changes to the fund's valuation methods in the past three months.

Electronic disclosure of this information

Most of the information contained in this statement, including some additional information, is available in a spreadsheet at www.nzfunds.co.nz/Kiwisaver/PeriodicDisclosure/KSS10072_001_QDSSep2013Income Strategy.csv

Notes

- ¹ Returns in this statement are after tax at the highest prescribed investor rate (PIR) of tax for an individual New Zealand resident. Your tax rate may be lower.
- ² Fund fees are fees charged as a percentage of a member's interest in the fund (i.e. as a percentage of their KiwiSaver account balance).
- ³ Other fees and costs comprise:
 - (a) operating costs directly incurred by the fund; and
 - (b) annual management fees, performance-based fees and operating costs incurred by underlying funds the fund invests into.

Estimates were used when deriving annual management fees, performance-based fees and operating costs incurred by certain underlying funds that the fund invests into. A list of underlying funds where estimates were used follows.

Fund	Information and assumptions used to make estimates
Nordea 1 – US Total Return Bond Fund	Fee and operating cost information obtained from the administrator of the Nordea 1 – US Total Return Bond Fund was for the six months to June 2013.
iShares iBoxx \$ High Yield Corporate Bond ETF	Fee and operating cost information obtained from the administrator of the iShares iBoxx \$ High Yield Corporate Bond ETF was for the year to February 2013.

- ⁴ Membership fees are the fixed dollar charges for membership in the KiwiSaver scheme. For members who invested in more than one fund in the NZ Funds KiwiSaver Scheme, \$42.30 was the maximum membership fees charged over the year to 31 March 2013. From 1 September 2013, membership fees have increased to \$42.72 per annum, in line with the New Zealand Consumer Price index.
- ⁵ NZ Funds uses derivatives as part of its active investment management approach. The use of derivatives can result in the fund being leveraged. Leverage occurs when the total economic exposure exceeds 100%. Where leverage exists the actual investment mix pie chart and the target investment mix table have been scaled to total 100%. Removing the effect of scaling, the total economic exposure of the fund as shown in the actual investment mix and the target investment mix, would be 108.97% and 110.00% respectively. See the latest NZ Funds KiwiSaver Portfolio Insights for more details on the economic exposure for this fund; available at www.nzfunds.co.nz/kiwisaver_portfolio_information.html.

NZ Funds uses an active investment management approach and as a result the target investment mix may change from time to time.

- ⁶ The top 10 investments have been compiled using a balance sheet approach. This differs from the approach used in compiling the actual and target investment mixes, which include the impact of derivatives.

Revised Disclosure Statement

As a result of discussions with external advisors, we have further considered the disclosures of certain items in the 30 September 2013 quarterly disclosure statement filed on 21 October 2013. The changes made to the original 30 September 2013 quarterly disclosure statement are summarised below:

- When compiling the actual investment mix and related footnotes, we have moved from using a balance sheet approach to a scaled economic exposure approach.
- When compiling the target investment mix and related footnotes, we have moved from using a balance sheet approach to a scaled economic exposure approach.
- In the top 10 investments table, credit ratings have now been provided for deposit accounts, margin accounts and foreign currency forward contracts. In addition foreign currency forward contracts have been classified as cash and cash equivalents; previously these were classified as other.

Manager's certificate

New Zealand Funds Management Limited as manager of the NZ Funds KiwiSaver Scheme Income Strategy certifies in accordance with regulation 41 of the KiwiSaver (Periodic Disclosure) Regulations 2013 that:

- the disclosure statement has been prepared for the purposes of these regulations; and
- to the best of the manager's knowledge after making reasonably inquiry, all information required by the regulations has been disclosed in accordance with these regulations and the information presented is accurate; and
- the disclosure statement does not contain any matter that is likely to deceive or mislead with regard to any particular that would be material to an offer of an interest in the NZ Funds KiwiSaver Scheme.



Philip Doak
Director



Gregory Horton
Director



Richard James
Director



Michael Lang
Director



Glenn Wright
Director

Date: 23 April 2014

Manager

New Zealand Funds Management Limited
Level 16, Zurich House
21 Queen Street
Private Bag 92163
Auckland 1142

Attention: Client Services Representative - NZ Funds KiwiSaver Scheme
Telephone: (09) 377 2277 or 0508 733 337
Email: kiwisaver@nzfunds.co.nz
Website: www.nzfunds.co.nz

Administration Manager

Aon New Zealand
Level 2, AMP Centre
29 Customs Street West
PO Box 3167
Auckland 1140

Attention: Client Services Representative - NZ Funds KiwiSaver Scheme
Telephone: 0800 693 5494
Email: nzfkivi@aon.co.nz