Fund update
For the quarter ended 31 December 2016

NZ Funds Managed Superannuation Service
Inflation Strategy

This fund update was first made publicly available on 13 February 2017

What is the purpose of this update?
This document gives you information about the Inflation Strategy including what fees were charged. The document will help you to compare the fund with other funds. New Zealand Funds Management Limited prepared this update in accordance with the Financial Markets Conduct Act 2013. This information is not audited and may be updated.

Description of this fund
The objective of the Inflation Strategy is to mitigate the impact of inflation on your investment over the medium and/or long term by investing in income-orientated assets and growth-orientated assets using an active investment management approach. The anticipated primary investments of the fund are a diversified range of inflation-sensitive assets.

<table>
<thead>
<tr>
<th>Total value of the fund</th>
<th>~</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of investors in the fund</td>
<td>~</td>
</tr>
<tr>
<td>The date the fund started</td>
<td>24 January 2017</td>
</tr>
</tbody>
</table>

What are the risks of investing?
Risk indicator for the Inflation Strategy: 1
1 Lower risk  2  3  4  5  6  7 Higher risk
4 Potentially lower returns  5 Potentially higher returns

The risk indicator is rated from 1 (low) to 7 (high). The rating reflects how much the value of the fund’s assets goes up and down. A higher risk generally means higher potential returns over time, but more ups and downs along the way.

To help you clarify your own attitude to risk, you can seek financial advice or work out your risk profile at www.nzfunds.co.nz/AdviceSolutions/RiskProfile/

Note that even the lowest category does not mean a risk-free investment, and there are other risks that are not captured by this rating.

The risk indicator is not a guarantee of a fund’s future performance. The risk indicator is based on the returns data for the five years to 31 December 2016. While risk indicators are usually relatively stable, they do shift from time to time. The risk indicator will continue to be updated in future fund updates.

See the Product Disclosure Statement (PDS) for more information about the risks associated with investing in this fund.

How has the fund performed?

| Annual return (after deductions for charges and tax) | not applicable |
| Annual return (after deductions for charges but before tax) | not applicable |
| Market index annual return (reflects no deduction for charges and tax) | 7.58% |

The market index annual return is based on a composite index calculated using the market indices and weightings set out in the Statement of Investment Policy and Objectives (SIPO). Additional information about the market index is available on the offer register at www.companiesoffice.govt.nz/disclose.

What fees are investors charged?
Investors in the Inflation Strategy are charged fund charges. Based on the PDS dated 14 December 2016, these are estimated to be:

| Total fund charges (estimated) | 1.45% |

Which are made up of:

| Total management and administration charges (estimated) | 1.45% |

Including:

| Manager’s basic fee | 1.30% |
| Other management and administration charges | 0.15% |
| Total performance-based fees | 0.00% |

Investors may also be charged individual action fees for specific actions or decisions (for example, for withdrawing from or switching funds). See the NZ Funds Managed Superannuation Service ‘Other Material Information’ document on the offer register at www.companiesoffice.govt.nz/disclose for more information about those fees.

Small differences in fees and charges can have a big impact on your investment over the long term.
**Example of how this applies to an investor**

Liam had $10,000 in the fund at the start of the year and did not make any further contributions. At the end of the year, Liam received a return after fund charges were deducted of $758 (that’s 7.58% of his initial $10,000). Liam did not pay any other charges. This gives Liam a total return after tax of $758 for the year.

**Key personnel**

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Current position</th>
<th>Time in current position</th>
<th>Previous or other position</th>
<th>Time in previous or other position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richard James</td>
<td>Chief Executive, Chair of the Investment Committee and a Director</td>
<td>7 years 10 months</td>
<td>Chief Operating Officer, New Zealand Funds Management Limited</td>
<td>6 years 1 month</td>
</tr>
<tr>
<td>Michael Lang</td>
<td>Chief Investment Officer and a Director</td>
<td>8 years 4 months</td>
<td>Partner, Eclectica Asset Management</td>
<td>1 year 8 months</td>
</tr>
<tr>
<td>David Wilson</td>
<td>Investment Strategist and a Principal</td>
<td>20 years</td>
<td>Chief Economist, JB Were</td>
<td>3 years 5 months</td>
</tr>
<tr>
<td>Mark Brooks</td>
<td>Head of Income and a Principal</td>
<td>9 years 1 month</td>
<td>Senior Portfolio Manager, Credaris</td>
<td>3 years 4 months</td>
</tr>
<tr>
<td>Josh Wilson</td>
<td>Portfolio Manager</td>
<td>5 years 7 months</td>
<td>Equity Analyst, Collins Stewart</td>
<td>4 years</td>
</tr>
</tbody>
</table>

**Further information**

You can also obtain this information, the PDS for the NZ Funds Managed Superannuation Service, and some additional information from the offer register at www.companiesoffice.govt.nz/disclose.

**Notes**

1. As the fund started on 24 January 2017, actual returns for the fund are not available. Market index returns for the 5 years to 31 December 2016, rather than the fund’s actual returns, have been used to prepare the risk indicator. As a result, the risk indicator may provide a less reliable indicator of the potential future volatility of the fund than had it been prepared using actual returns.

2. As the fund started on 24 January 2017, historical fee information is not available. The total fund charges shown are based on the fee information in the PDS dated 14 December 2016. It includes our best estimate of the fees and costs that will be charged to the fund including fees and costs payable in respect of the underlying funds in which the fund invests (including performance fees that may charged by underlying external managers). For more information on the basis of estimates, see the PDS and the NZ Funds Managed Superannuation Service – Other Material Information document on the offer register at www.companiesoffice.govt.nz/disclose.

3. As the fund started on 24 January 2017, this calculation is based on the market index return for the past year.
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