NZFUNDS

NZ Funds Managed Superannuation Service

Other Material Information

14 December 2016

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1. BACKGROUND

This is an important document that provides you with additional information in relation to your investment in the NZ Funds Managed Superannuation Service (the 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 *www.companiesoffice.govt.nz/disclose*.

This document has been prepared in accordance with the requirements of section 57(1)(b)(ii) of the Financial Markets Conduct Act 2013 (FMC Act) and clause 52 of Schedule 4 of the Financial Markets Conduct Regulations 2014 (FMC Regulations).

In this document:

- the words 'you' , 'your' or 'Member' refer to a person that invests in the Service;
- the words 'NZ Funds', 'we', 'us', 'our' or 'the Manager' refer to New Zealand Funds Management Limited as manager of the Service;
- capitalised terms have the meaning given to them in the Trust Deed (defined below), unless the context otherwise requires or otherwise defined in this document; and
- when we use the word 'current' or 'currently', in relation to legislation, policy, activity or practice we refer to these as at the date of this document. Any legislation, policy, activity or practice may be reviewed or changed without us notifying you.

The information in this document could change in the future. Please check the offer register at *www.companiesoffice.govt.nz/disclose* for any updates.

2. NZ FUNDS MANAGED SUPERANNUATION SERVICE

The NZ Funds Managed Superannuation Service is registered under the FMC Act. The Service is governed by a Trust Deed dated 2 December 2016 (Trust Deed). You can get a copy of the Trust Deed from the scheme register at *www.companiesoffice.govt.nz/disclose*.

The Service offers four investment options for you to choose from: three funds (called the Income Strategy, the Inflation Strategy and the Growth Strategy) and a lifecycle investment option (called the LifeCycle Process).

The LifeCycle Process is designed for a Member with a moderate risk profile. If you choose the LifeCycle Process, your investment is automatically allocated across the three funds (Strategies) in the Service each year, depending on your age. The portion of your investment allocated to each Strategy will change over time. When you are younger, your investment will be largely in the Growth Strategy. As you get closer to retirement, more of your investment will automatically be allocated to the Inflation Strategy and the Income Strategy.

If the LifeCycle Process is not suitable for you (for example because you have a conservative or aggressive risk profile) you may choose to invest using the MemberChoice Process. Under the MemberChoice Process you can choose (generally in conjunction with your financial adviser) which Strategies your investment is allocated to, and the proportion to be invested in each Strategy.

More information on the LifeCycle Process, the MemberChoice Process and each Strategy is included in the PDS.

3. THE MANAGER

About NZ Funds

NZ Funds is the manager of the Service.

We were granted a licence to act as the manager of registered schemes under the FMC Act by the Financial Markets Authority (FMA) on 17 May 2016. The licence has a five year term, subject to us maintaining the same or better standard of capability, governance and compliance as was the case when the FMA assessed our licence application. The licence is subject to the normal conditions imposed under the FMC Act and the FMC Regulations, and the standard conditions imposed by the FMA.

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 which are principally senior management of NZ Funds.

NZ Funds' directors

The current directors of NZ Funds are:

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

Richard Stuart Taylor James (Dip. Bus. (Finance), Authorised Financial Adviser) is a director and Chief Executive of NZ Funds. Richard joined NZ Funds in 1993 and has worked in a number of areas within the business over that time. Richard became a director of NZ Funds in August 2006 and was appointed Chief Executive in 2009.

Richard 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.

Michael John Lang (BA (Econ), LLB (Hons), CFA) is a director and Chief Investment Officer of NZ Funds, Head of Wealth at Work and Head of Private Wealth. Michael joined NZ Funds in 1993. He left to work overseas in 2003 and returned in 2008. Michael was appointed Chief Investment Officer in 2009 and became a director of NZ Funds in January 2010.

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.

Philip James Doak (BCom (Ag), Dip. Applied Finance & Investment, Authorised Financial Adviser) is a director and was appointed Chief Operating Officer in 2011. Philip joined NZ Funds in 2005 and is responsible for NZ Funds' operational functions and capabilities. He became a director of NZ Funds in September 2011. Prior to joining NZ Funds, Philip spent 16 years with Westpac where he held executive and general management roles.

Philip is not an independent director as he is an employee of NZ Funds and has an indirect ownership interest in NZ Funds through the IGHL Trust.

Glenn Keith Wright (BCom, BSc, Dip. Bus. (Mktg), Authorised Financial Adviser) is a director of NZ Funds. Glenn joined NZ Funds in 1988 when it commenced business. He currently leads our direct client business. He became a director of NZ Funds in September 2011.

Glenn is not an independent director as he is an employee of NZ Funds and has an indirect ownership interest in NZ Funds through the IGHL Trust.

Gerald Noel Siddall (LLB) is a non-executive director of NZ Funds. Gerald has had 30 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. He 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 had 33 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.

3. THE MANAGER (CONTINUED)

Russell is not an employee of NZ Funds. He is not an independent director as he has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

The directors of NZ Funds may change from time to time without us notifying you. You can find the names of our directors at any time at *www.companiesoffice.govt.nz/companies*.

4. OTHER PARTIES

Supervisor

The New Zealand Guardian Trust Company Limited is the supervisor (Supervisor) of the Service. The Supervisor has been granted a licence by the FMA under the Financial Markets Supervisors Act 2011 to act as a supervisor in respect of debt securities and certain registered schemes, for a term expiring on 16 March 2018. Further information on the Supervisor's licence is available on the FMA's website at *www.fma.govt.nz*.

The Supervisor is responsible for holding the property of the Service.

The current directors of the Supervisor are:

- Robin Albert Flannagan
- James Earl Douglas

The directors of the Supervisor may change from time to time without us notifying you. You can find the names of the Supervisor's directors at any time at *www.companiesoffice.govt.nz/companies*.

Custodian

The Supervisor is responsible for holding the property of the Strategies. All property of the Strategies is currently held by the Supervisor. However, the Supervisor may enter into custodial services agreements with third parties to provide custodial services in the future without notifying you.

Auditors

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

Solicitors

The solicitors for the Service are Russell McVeagh, Auckland.

5. SUPERVISOR AND MANAGER INDEMNITY

Unless it fails to meet the standard of care required by the FMC Act, if the Supervisor incurs any expense or liability in performing its functions for the Service then it is indemnified under the Trust Deed (and can be reimbursed) from the Service's assets to the full extent of such expense or liability and the costs of any proceedings in which the liability is determined.

The Manager is also indemnified from the Service's assets on the same terms.

Further information regarding the Supervisor's and the Manager's responsibilities and indemnities is set out in the Trust Deed.

6. JOINING AND CONTRIBUTING TO THE SERVICE

This section provides information about joining and contributing to the Service.

Joining the Service

The process for joining the Service is set out in the PDS.

You can join the Service if you are:

- an individual; or
- a person who is the trustee or manager of a retirement scheme.

We can accept or reject any application for membership in our discretion and no reasons are required to be given if any application is rejected. We may also defer accepting any application for membership by up to two Business Days (meaning any day other than a Saturday, Sunday or public holiday in Auckland).

Transferring from another scheme

You may transfer into the Service from any other superannuation scheme, retirement scheme or managed investment scheme.

We can decline to accept a transfer in our discretion and no reasons are required to be given if any transfer is rejected.

If accepted, the amount that you transfer will be credited to your member account.

We must have regard to any restrictions, limitations or conditions imposed by the transferor scheme manager or supervisor on the amount transferred.

You should be aware that the scheme you are transferring from may charge you fees when you exit their scheme. However, NZ Funds does not charge a fee for processing any transfers from another superannuation scheme to the Service.

Making investments

You can contribute to the Service by making regular or lump sum contributions. You are free to choose when and how much to invest. There is currently no minimum amount for regular or lump sum contributions. We will notify you if we introduce a minimum contribution amount.

If you choose to make regular contributions, you will need to complete the direct debit form at the back of the PDS. We may, in our discretion, accept alternative payment methods for regular contributions.

You can choose to make regular contributions on a weekly, fortnightly, monthly or quarterly basis. There is no obligation for you to make any ongoing regular contributions once you have made your initial investment. You can increase, decrease or stop regular contributions at any time by giving written notice to NZ Funds.

To make a lump sum payment directly to the Service, you will need to complete a lump sum contribution form and send it to NZ Funds. This form is available on our website at *www.nzfunds.co.nz*.

NZ Funds does not charge a contribution fee.

7. WITHDRAWING FROM THE SERVICE

This section provides information about withdrawals from the Service. You can make a withdrawal in accordance with the superannuation scheme rules set out in the Financial Markets Conduct Regulations 2014 (the Superannuation Scheme Rules) and the Trust Deed. Unless you satisfy one of the withdrawal criteria, you cannot generally withdraw from the Service.

The table below shows the main types of withdrawals and what you can withdraw. Further information on each of these withdrawals is provided below.

WITHDRAWAL TYPE	WHAT CAN YOU WITHDRAW?
Retirement	The full value of your investment
Transition to Retirement	Periodic withdrawals over up to a 10 year period which are calculated in accordance with the formula set out in the Superannuation Scheme Rules, and which should result in you having some money in your member account when you reach the New Zealand Superannuation qualifying age.
Significant financial hardship	Up to the full value of your investment
Serious illness	Up to the full value of your investment
Death	The full value of your investment (which will be paid to your estate)

Retirement Withdrawals

You can withdraw the full value of your investment when you reach the earlier of:

- The age of eligibility for New Zealand Superannuation (currently age 65); or
- The date you turn age 60, if the Supervisor is satisfied that you have permanently retired from business or employment.

Transition to Retirement Withdrawals

Where the Supervisor is satisfied that you have reached the age that is 10 years before you qualify for New Zealand Superannuation (currently age 55) you may make periodic withdrawals from the Service calculated in accordance with the formula set out in the Superannuation Scheme Rules.

The effect of the Superannuation Scheme Rules is that from age 55, a Member transitioning to retirement may withdraw a specified percentage of their investment, as illustrated below:

AGE	55	56	57	58	59	60	61	62	63	64	65
Percentage of member balance that may be withdrawn	9%	10%	11%	13%	14%	17%	20%	25%	33%	50%	100%

The annual withdrawal limits are not cumulative (ie, at age 58 a member cannot withdraw 43% of their investment, they can only withdraw 13% over the next 12 month period).

Significant financial hardship

Where the Supervisor is reasonably satisfied that you are suffering or are likely to suffer significant financial hardship (as defined in the Superannuation Scheme Rules) you may, on application to the Supervisor, withdraw some or all of your investment.

Significant financial hardship includes significant financial difficulties that arise because of:

- your inability to meet minimum living expenses;
- your inability to meet your mortgage repayments on your principal family residence resulting in the mortgagee seeking to enforce the mortgage on the residence;
- the cost of modifying a residence to meet special needs arising from your disability or the disability of any of your dependants;
- the cost of medical treatment for an illness or injury suffered by you or any of your dependants;
- the cost of palliative care for you or any of your dependants;
- the cost of a funeral for any of your dependants; or
- if you are suffering from a serious illness (as defined immediately below).

The Supervisor must be reasonably satisfied that reasonable alternative sources of funding have been explored and have been exhausted. The Supervisor may direct that the amount withdrawn be limited to an amount that it considers sufficient to alleviate the particular hardship.

You may be required to provide evidence to support your application to withdraw on the grounds of significant financial hardship.

Serious illness

Where the Supervisor is reasonably satisfied that you are suffering from a serious illness (as defined in the Superannuation Scheme Rules) you may, on application to the Supervisor, withdraw your entire investment.

Serious illness means an injury, illness or disability that:

- results in you being totally and permanently unable to engage in work for which you are suited by reason of experience, education, or training, or any combination of those things; or
- poses a serious and imminent risk of death.

You may be required to provide evidence to support your application to withdraw on the grounds of serious illness.

Death

If you die while a member of the Service, your personal representatives (that is, the executors or administrators of your estate) may apply to withdraw the balance of your investment in the Service which will be paid to your estate. If your savings are less than a prescribed minimum amount (currently $15,000) and the requirements of the Administration Act 1969 are met, we may pay the balance of your investment direct to a permitted recipient specified in that Act upon application.

Other withdrawals

Other Acts

We and the Supervisor will comply with the provisions of any legislation or Court order that requires us to release some or all of your investment from the Service, for example in relation to the Property (Relationships) Act 1976.

Transfers

You can apply to transfer the value of your investment in the Service to another superannuation scheme, KiwiSaver scheme, or an equivalent overseas retirement scheme. If the other scheme indicates it will accept you as a member, we will transfer the value of your member account to that scheme.

Restrictions on withdrawals

You may not be able to withdraw, as a lump sum, funds that you have transferred from another scheme to the Service as withdrawal conditions from the other scheme may apply. For example the amount transferred may be subject to a requirement for all or part of the transfer to be locked in or withdrawn in the form of an annuity, or other form of income for life.

7. WITHDRAWING FROM THE SERVICE (CONTINUED)

Ceasing to be a Member

You cease to be a member of the Service when:

- you withdraw your full account balance from the Service;
- you transfer from the Service to another superannuation scheme, KiwiSaver scheme or an equivalent overseas retirement scheme; or
- you receive a notice from us that your membership is terminated because the balance of your account has reached zero,

whichever occurs first.

8. OTHER KEY TERMS

Set out below is a summary of other relevant terms of the Service. The Trust Deed contains further terms that govern the Service. For more detailed information, please see the copy of the Trust Deed available on the scheme register at *www.companiesoffice.govt.nz/disclose*.

Valuation

Unit prices are calculated by reference to the net asset value of the relevant Strategy at the time, divided by the number of units on issue in the Strategy. The net asset value of a Strategy means the value of the assets of the Strategy less the liabilities attributable to that Strategy. The Trust Deed sets out the principles that apply to the valuation of a Strategy's assets and the determination of liabilities attributable to a Strategy. We generally calculate the net asset value of a Strategy each Business Day (this is called a Valuation Day).

We may determine valuation methods and policies for each category of asset and change them from time to time provided the Supervisor approves such valuation methods and policies and we notify the Supervisor of any changes made. Our policy permits the use of estimates in asset valuations, for example, where assets are illiquid or infrequently traded.

In determining the unit price on the issue of units, under the Trust Deed, we may deem the net asset value of the relevant Strategy to be increased by an amount equal to our estimate of the costs that would have been incurred if the assets of the Strategy had been acquired on the relevant Valuation Day (or any lesser amount). Similarly, in determining the unit price on the redemption of units, if we consider it appropriate, we may deem the net asset value of the relevant Strategy to be reduced by an amount equal to our estimate of the costs that would have been incurred if the assets of the Strategy had been disposed of on the relevant Valuation Day (or any lesser amount). We currently do not apply transaction costs in determining the unit price.

Withdrawal payments

Withdrawals will be processed at the unit prices on the next Valuation Day following the day on which a determination is made that the withdrawal can be paid. Withdrawal proceeds will generally be paid to your nominated bank account within four Business Days of the withdrawal request being received and processed by NZ Funds.

Suspension powers

In certain circumstances we may give notice to the Supervisor and suspend the calculation of net asset value, withdrawals, or transfers to or from the Service or any Strategy. This includes where we believe that it is not practicable or would be prejudicial to the interests of any Members to allow withdrawals or transfers to or from the Service or a Strategy, or to calculate the net asset value of a Strategy. The period of suspension cannot be longer than 10 days unless we get the prior agreement of the Supervisor.

Borrowing

The Strategies do not currently borrow to invest - that is, the Strategies do not borrow money from a bank or other lender under a loan facility agreement for the purpose of investing (excluding ongoing operational agreements with service providers such as overdraft facilities and creditor relationships).

8. OTHER KEY TERMS (CONTINUED)

Under the Trust Deed, we may direct the Supervisor to borrow on behalf of the Service and give security in respect of any borrowing over all or any part of the assets of the Service. There is no limit under the Trust Deed on the amount of borrowing for the Service.

Termination or alteration of a Strategy

We may terminate, close or alter the nature of any Strategy, or amalgamate any two or more Strategies, on such terms and conditions as we think fit after giving prior written notice to the Supervisor.

Winding-up/insolvency

We may decide to wind-up the Service. If the Service is wound up or becomes insolvent, the assets of the Strategies will be sold and the proceeds applied first to meet the claims of any creditors. After payment of all creditors, your share of what remains will be paid to you. You are not liable to pay money to any person as a result of the insolvency of the Service, other than any PIE tax attributable to you (see section 13 'Taxation' on page 15).

Indemnity for tax liability

You indemnify the Supervisor and us for tax paid on income attributed to you by the Service. This indemnity only applies if your interest in the Service is not sufficient to meet any tax liability on income attributed to you (see section 13 'Taxation' on page 15).

Changes to Trust Deed

Subject to the FMC Act, and the provisions of the Trust Deed, we may agree with the Supervisor to amend the Trust Deed. The Supervisor must be satisfied that the amendment does not have a material adverse effect on Members (unless affected Members approve the amendment by special resolution). The Trust Deed can also be amended in accordance with any other applicable legislation (such as the Financial Markets Supervisors Act 2011).

9. ADDITIONAL INFORMATION ABOUT FEES

Management fee

We are entitled to charge each Strategy a management fee. Management fees are fixed as a percentage of the gross asset value (i.e. total assets) of the Strategy. The current management fees (estimated as a percentage of net asset value) are disclosed in the PDS. Management fees are accrued daily and paid to NZ Funds monthly in arrears.

We may change the management fee at any time provided we give prior notice to the Supervisor.

We may decide to charge a Member, or group of Members (including, without limitation, any group of Members advised by a financial adviser) lower management fees than currently disclosed in the PDS or we may decide to rebate all or a proportion of our management fees for that Member or group of Members.

Supervisor fee

The Supervisor is entitled to charge a fee for its services. The Supervisor fee for each Strategy is currently up to 0.04% per annum of the gross asset value of the Strategy, and is subject to a minimum of $10,000 for the first year of the Service's operation, and $20,000 per year thereafter across all of the Strategies. Supervisor fees are accrued daily and paid by the Strategy monthly in arrears. Estimates of Supervisor fees are included within 'administration charges' in the PDS.

The Supervisor may, with our prior consent, change the Supervisor fee at any time.

Expense reimbursement

The Trust Deed allows 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 in relation to the Service. However, we and our associated entities currently meet all ordinary expenses from the fees we receive and do not charge these expenses to the Service. If extraordinary or unusual expenses are incurred, these may be charged to the Service.

Professional fees

The Strategies may incur professional fees such as fees for legal, accounting and audit services. The Trust Deed allows these professional fees to be paid out of the assets of the relevant Strategy as expenses. Estimates of these fees are included within 'administration charges' in the PDS.

Underlying fund fees

The Strategies currently invest in wholesale funds managed by us (Wholesale Trusts). These Wholesale Trusts incur fees and expenses. Some of these fees and expenses are paid to us and entities associated with us (see below for more information). The Strategies and Wholesale Trusts may also invest in other funds managed by external specialist investment managers which may charge fees including entry fees, exit fees, management and performance fees, and incur expenses. The returns of a Strategy in which you are invested will be indirectly affected by these underlying fund fees and expenses.

Estimates of underlying fund fees and expenses net of rebates or contributions by NZ Funds (excluding external manager performance fees which are disclosed separately) are included within 'administration charges' in the PDS.

Wholesale Trusts and fees payable to NZ Funds and its associated entities

The Wholesale Trusts may be either New Zealand or Australian unit trusts. New Zealand Funds Superannuation Limited (NZFSL), a wholly-owned subsidiary of NZ Funds, is currently the trustee of the New Zealand Wholesale Trusts. Global Investment Services Limited (GISL), a wholly-owned subsidiary of IGHL, is currently the trustee of the Australian Wholesale Trusts. NZFSL and GISL are each entitled to charge a trustee fee for the services they provide as trustee of the Wholesale Trusts. The current trustee fee charged by NZFSL is $100,000 per annum across all of the New Zealand Wholesale Trusts. The current trustee fee charged by GISL is AUD100,000 per annum across all of the Australian Wholesale Trusts. These fees may be altered by agreement between the relevant parties without us notifying you.

NZ Funds acts as manager of the New Zealand Wholesale Trusts and as investment manager of the Australian Wholesale Trusts. New Zealand Administration Services Limited (NZAS), a wholly-owned subsidiary of NZ Funds, acts as the administration manager of the Wholesale Trusts. Both NZ Funds and NZAS are entitled to charge a fee for the respective services they provide for the Wholesale Trusts. However, these fees indirectly incurred by the Strategies are currently rebated by NZ Funds (so these fees will not affect your returns).

In addition to the above fees, we and our associated entities are entitled to be reimbursed from the Wholesale Trusts for expenses incurred in carrying out our respective duties in relation to the Wholesale Trusts. However, we and our associated entities currently meet all ordinary expenses from the fees we receive and do not charge these expenses to the Wholesale Trusts. If extraordinary or unusual expenses are incurred, these may be charged to the Wholesale Trusts.

All fees paid by the Wholesale Trusts to us and our associated entities are on arms' length terms (or terms less favourable to us as the related party) and meet the requirements governing related party transactions set out in the FMC Act.

Basis for estimates of fund charges in PDS

The annual fund charges in the PDS include estimates of management fees, Supervisor fees, professional fees and underlying fund fees and expenses (including external manager performance fees).

Estimates of external manager performance fees are discussed separately below. Other estimates are based on our experience with other managed investment schemes that we manage, and the level of charges that we expect to be incurred by each Strategy over the next year.

Actual annual fund charges for each Strategy for the most recent year will be available in the latest fund update.

External manager performance fees

The annual fund charges in the PDS include estimates of performance fees that may be charged by underlying specialist investment managers. A performance fee is typically only charged by a specialist investment manager when its investment return outperforms either a benchmark or a performance hurdle (which may be 0%).

Estimates of external manager performance fees in the PDS are based on annualised average returns of certain hedge fund indices over the past five years to 30 September 2016. Assumptions on the percentage of each Strategy invested in external managers that charge performance fees have been made using our experience of the historical external manager allocations used for other managed investment schemes that we manage as a guide.

9. ADDITIONAL INFORMATION ABOUT FEES (CONTINUED)

Past performance is not indicative of future performance and the estimates are not intended to indicate any expected returns or fees. In addition, the specialist investment managers and the Strategies' allocation to those managers will change from time to time. Actual performance fees will depend on the managers selected, their performance, and the Strategies' allocation to those managers, and will vary from the estimates.

Other charges

Individual action fees

There are currently no establishment, contribution, termination, withdrawal, switch or transfer fees charged.

Financial adviser fees

Your financial adviser may charge fees for financial advisory services they provide, together with implementation and withdrawal fees. These fees, including how and when the fees are payable, should be agreed between you and your financial adviser before an investment is made. Details of these fees are required to be outlined in your financial adviser's disclosure statement.

We may charge a fee for financial advisory services provided by a NZ Funds' financial adviser, which will be set and payable in the same way as above.

GST

All fees are stated exclusive of GST or other similar tax. This means that if any GST or other similar tax is payable on any fee, that tax will be payable in addition to the amount of the fee.

Contribution to fees

We may in our discretion and from our own funds, reduce, pay, contribute to or rebate some of the fees and expenses discussed in this section.

Administration payments

We may pay financial advisers an administration payment to assist them with the costs associated with providing financial advice to you. Any such payments will be made by us out of our own funds and we are not entitled to be reimbursed from the Strategies for these payments. We do not currently pay financial advisers an administration payment. However, we may do so at any time without notifying you.

10. ECONOMIC EXPOSURE

This section provides additional information on the Strategies' economic exposure and should be read in conjunction with the PDS.

Economic exposure is a measure developed and used by NZ Funds to illustrate the aggregate exposure that a Strategy has to the various asset classes it is invested in. Economic exposure is calculated using NZ Funds' methodology which sets out how each investment type (including each derivative type) is treated when calculating economic exposure. Some examples are included below. For more information on our methodology, please contact NZ Funds. NZ Funds may change its methodology from time to time without notifying you.

Where economic exposure exceeds 100%, this means the aggregate exposure of the Strategy is greater than the Strategy's net asset value and generally (but not always) means the Strategy is leveraged. A common difference is purchasing an investment denominated in a foreign currency does not require leverage, however the foreign currency exposure would be included as additional exposure in NZ Funds' economic exposure calculation (as illustrated in example three below).

NZ Funds currently limits the economic exposure for the Income Strategy and the Inflation Strategy to an amount of 300% (or three times the Strategy's net asset value). There is no limit on economic exposure for the Growth Strategy.

The economic exposure of each Strategy changes frequently and changes can be material. Each Strategy's economic exposure is published monthly in NZ Funds' 'Portfolio Insights' document which is available on our website at *www.nzfunds.co.nz*.

10. ECONOMIC EXPOSURE (CONTINUED)

Examples of economic exposure calculation

The following examples provide an illustration of how certain investments are treated when calculating economic exposure, and where the use of derivatives results in leverage and where it does not.

- **Example 1: Derivative used, economic exposure = 100%, no leverage**

  A Strategy holds 100% cash and purchases a New Zealand share market index future (a derivative) to gain an index exposure to New Zealand shares. If the derivative provides an exposure of 90%, the economic exposure of the Strategy will be 100% (10% to cash and 90% to New Zealand shares via the derivative). In this example, the use of a derivative does not result in economic exposure of the Strategy exceeding 100% and the Strategy is not leveraged.

- **Example 2: Derivative used, economic exposure > 100%, leverage**

  A Strategy holds 100% New Zealand bonds and purchases a New Zealand share market index future (a derivative) to gain an index exposure to New Zealand shares. If the derivative provides an exposure of 90%, the economic exposure of the Strategy will be 190% (100% to New Zealand bonds and 90% to New Zealand shares via the derivative). In this example, the use of a derivative results in economic exposure of the Strategy exceeding 100% and the Strategy is leveraged.

- **Example 3: No derivative used, economic exposure > 100%, no leverage**

  A Strategy holds 100% Australian shares (denominated in Australian dollars) where the currency exposure is not hedged back into New Zealand dollars. The economic exposure of the Strategy will be 200% (100% to Australian shares and 100% to the Australian dollar/New Zealand dollar exchange rate). In this example, economic exposure of the Strategy exceeds 100%, however no derivative is used and the Strategy is not leveraged.

11. RISKS

Every investment has risk. The primary risks of investing in the Service include:

- Not getting back some or all of your money;
- Not getting the returns you expected;
- Not being able to withdraw from the Service when you want to; and
- Experiencing periods where your returns are negative.

In addition to the general investment risks and other specific risks set out in the PDS, there are other risks associated with the Service that could impact your investment (discussed below). If any of these risks eventuate, you could receive back less than you invested.

General investment risks

In the PDS we set out some of the general investment risks that apply to investing in the Service. The following provides some examples of the different types of risk that contribute to market risk.

Currency risk

The Strategies' unit prices are denominated in New Zealand dollars but the Strategies may be exposed directly or indirectly to foreign currencies or investments denominated in foreign currencies. Currency risk is the risk that a Strategy's returns may be affected by changes in the value, or terms, of a currency.

Interest rate risk

Interest rate risk is the risk that a Strategy's returns may fluctuate as a result of changes in interest rates.

Credit risk

Credit risk is the risk that an issuer of a security may fail to pay interest or principal when due.

Equity risk

Equity risk is the risk that a Strategy's returns may fluctuate as a result of changes in the value of its 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 the country or sector.

Other general risks

Counterparty risk

Counterparty risk is the risk that a counterparty to a contract fails to meet its obligations under the contract, causing loss to a Strategy.

Operational risk

The Service may be exposed to operational risks that result from external events or failure of internal or external processes, people, policies, technology or systems (for example, a material error in the pricing process). Operational risk may adversely affect the Service or any Strategy.

Service provider risk

A range of parties are involved in the operation of the Service (including the Supervisor, the Manager, the trustee and custodian of the Wholesale Trusts, underlying specialist investment managers, settlement and trade counterparties, investment brokers and banks). Service provider risk is the risk that any of these parties fail to perform their obligations. If this occurs, the Service or any Strategy may be adversely affected.

Wholesale Trust investment risk

The Strategies invest in Wholesale Trusts (with the current exception of cash and cash equivalents and derivatives). Wholesale Trust investment risk is the risk that if an adverse event occurs at the Wholesale Trust level or the Wholesale Trusts are wound up, the Strategies may be adversely affected.

Valuation risk

The Strategies' unit prices are based on market price information. Valuation risk is the risk that the market fails to provide an accurate price, or any price whatsoever. If this occurs, the Strategies may be adversely affected.

Suspension of withdrawals risk

In certain circumstances, we have the ability to suspend or partially suspend withdrawals from the Service or any Strategy. If this occurs, you may not be able to withdraw or switch your investment when you would otherwise be entitled to.

Risk of losing PIE tax status

The Service is currently a Portfolio Investment Entity (PIE). If the Service elects to surrender its PIE tax status, we will give you prior notice. However, it is possible that the Service ceases to be a PIE without election. If the Service loses its PIE tax status, your after-tax benefit from investing in the Service may be reduced and/or the Service may be adversely affected.

Tax risk

Income, dividends and interest, and gains on securities and investments in which the Strategies invest may be subject to taxes (including withholding taxes) imposed by tax authorities in New Zealand or other jurisdictions, now or in the future. The Strategies may not be able to claim a credit for any taxes imposed. Tax risk may adversely affect the Strategies.

Regulatory risk

The Service, each Strategy, and its investments are subject to laws and regulations (including in relation to tax) in New Zealand and other jurisdictions in which the Strategies invest. Any changes to those laws and regulations may adversely affect the Service, a Strategy and/or its investments. Any changes to the laws and regulations governing superannuation schemes (for example, a change to the Superannuation Scheme Rules) may impact your investment.

Insolvency risk

Insolvency risk is the risk of the Service or a Strategy becoming insolvent or being otherwise unable to meet its financial obligations. If this occurs, you may not recover the full amount of your investment.

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 Service. There may also be other risks which are currently unknown that may affect an investment in the Service.

12. CONFLICTS OF INTEREST

NZ Funds has policies and procedures in place to identify and manage actual or potential conflicts of interest that may arise. The NZ Funds' Conflicts Policy provides a framework for identifying, declaring and managing conflicts. The policy also covers gifts and hospitality. The Conflicts Policy is complemented by NZ Funds' Personal Holdings Policy. The Personal Holdings Policy includes a prohibition against employees holding or trading in securities unless otherwise permitted by the policy or approved by the NZ Funds Board.

The NZ Funds' Related Party Transactions Policy provides a framework for identifying and managing related party transactions (as defined under the FMC Act) and ensures that all related party transactions comply with the requirements of the FMC Act.

A conflict of interest that currently exists and affects every Strategy is the Strategies' investment in the Wholesale Trusts managed by us and where our associated persons provide trustee and/or administration services. We and our associated persons charge fees in respect of the services we provide to the Wholesale Trusts (see page 11 for more information on these fees). These fees will affect the value of the Wholesale Trusts and consequently affect the returns of the Strategies. This conflict of interest could materially influence the investment decisions in respect of the Service if non-arm's length fees were paid for these services. We manage this conflict by ensuring that all related party fee transactions comply with the requirements of the FMC Act and NZ Funds' Related Party Transactions Policy.

In addition to NZ Funds' policies and procedures described above, the FMC Act imposes statutory controls on conflicts of interest, including the following:

- We must, in exercising any power, or performing any duties, exercise the care, diligence and skill that a prudent person engaged in the profession of acting as manager of a registered scheme (as defined in the FMC Act) would exercise in those circumstances; act honestly in acting as manager; act in the best interests of Members; and treat Members fairly.
- We must not make use of information acquired through being the manager in order to gain an improper advantage for ourselves, or any other person, or cause detriment to Members.

13. TAXATION

This section contains a general summary of the taxation implications of investing in the Service. It is based on current tax law and is subject to change. You are encouraged to seek professional advice before making an investment. We and the Supervisor do not take any responsibility for your particular tax position as a result of an investment in the Service.

Portfolio Investment Entities (PIEs)

The Service has elected to be a Portfolio Investment Entity (PIE) under the PIE rules. In order for you to benefit from the tax treatment described below, the Service must continue to comply with the PIE rules.

If PIE status is lost, the after-tax returns from your investment in the Service may be reduced.

The PIE rules allow you to effectively pay tax on your investment in the Service at a maximum tax rate of 28%.

The amount of taxable income or loss of the Service allocated to you is calculated daily and attributed to you on a quarterly basis, within five Business Days of the end of each quarter.

For a quarter in which there is tax to pay, the Service will cancel a number of your units to fund your tax liability and will then pay this amount to Inland Revenue.

If the Service receives a tax refund, it will allocate that refund to Members during that quarter on a daily basis, and attributed to them quarterly. Where you are a member in the Service at the time the refund is paid, the refund will be used to purchase additional units in the Service. If you are no longer in the Service at the time the refund is paid, your refund will be paid directly to you.

It is important to note that while the tax cost is effectively borne by Members it remains a liability of the PIE.

Prescribed Investor Rate (PIR)

You must elect a PIR and provide us with your IRD number. If you are not a New Zealand tax resident, you will not need to supply an IRD number, but you will need to advise your country of residence.

13. TAXATION (CONTINUED)

It is important that you select the correct PIR. To select your correct PIR you need to calculate your taxable income (which includes your worldwide income and may include income when you were not resident in New Zealand) and PIE income for each of the previous two income years (an income year is the period from 1 April in one year to 31 March the next year). The PIR applying to you is then determined based on the year which has the lower combined income amount.

The PIR rates for an individual are:

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%

If you do not provide us with a PIR then income attributed to you will be taxed at 28%.

If you select a PIR that is too high, there is no ability under current law to obtain a refund for the excess tax paid. If you select a PIE tax rate that is too low, you may have to file a tax return and pay tax at your marginal tax rate (you will get a credit for tax paid on your behalf by the Service).

You can change your PIR at any time by completing a 'Notice to Change PIE Details' form. This form is available from us or your financial adviser.

Where you reduce your interests in the Service, fully withdraw from the Service or transfer your investment to another scheme, we can deduct from the amount withdrawn or transferred an amount equal to your PIE tax liability as at the date of the withdrawal or transfer.

If we do not do this, we are entitled to treat you as having a 0% PIR. If we have treated you as having a 0% PIR, you may be required to file a tax return and pay tax on the income allocated to you. Any tax paid by the Service on your behalf is available as a tax credit against your tax liability.

If the amount of tax on income attributable to you exceeds the value of your interest in the Service you may have to satisfy the tax liability directly to Inland Revenue. If NZ Funds or the Supervisor pays this tax liability, you indemnify us or the Supervisor for that amount.

14. MATERIAL CONTRACTS

The following is a summary of the contracts that we consider to be material in relation to the Service.

Trust Deed

The Trust Deed is an agreement between us and the Supervisor which came into effect on 2 December 2016. The Trust Deed governs the establishment and management of the Service and each Strategy. A copy of the Trust Deed is available on the scheme register at *www.companiesoffice.govt.nz/disclose*.

14. MATERIAL CONTRACTS (CONTINUED)

Management Agreement

We entered into a management agreement (Management Agreement) with the Supervisor dated 2 December 2016 that sets out the arrangements between us and the Supervisor in relation to certain operational matters relating to the Service. The Management Agreement specifies the reporting and information to be provided by us to the Supervisor, the requirements for operating the Service's bank accounts, and record keeping.

Nothing in the Management Agreement limits or alters the powers of the Supervisor or our duties under the Trust Deed and applicable law. In the event of any inconsistency between the Management Agreement and the Trust Deed, the Trust Deed will prevail.

15. ADDITIONAL INFORMATION ABOUT MARKET INDICES

Additional information about the market indices referred to in the SIPO can be found on the following web pages listed below.

S&P/ NZX Investment Grade Corporate Bond Index Total Return	*www.us.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/sp-nzx-bank-bills-90-day-index*
S&P/NZX 50 Portfolio Index Gross with Imputation	*www.us.spindices.com/indices/equities/sp-nzx-50-portfolio-index*
S&P/ASX Accumulation 200 Index	*www.us.spindices.com/indices/equities/sp-asx-200*
MSCI All Countries World Daily TR Net Local Currency	*www.msci.com/acwi*

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