

Smartshares Exchange Traded Funds – Resettlement Offer

Product Disclosure Statement

Offer of units in certain funds within the Smartshares Exchange Traded Funds as part of the resettlement described in each notice of meeting of unitholders in the Smartshares group investment funds dated 6 October 2016 (**Resettlement**)

Issued by Smartshares Limited

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on www.business.govt.nz/disclose. Smartshares Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial adviser to help you to make an investment decision.



1. Key information summary

What is this?

This is a managed investment scheme. Unitholders' money will be pooled with other unitholders' money and invested in various investments. Smartshares Limited (**we, our** or **us**) will invest unitholders' money and charge unitholders a fee for our services. The returns unitholders receive are dependent on our investment decisions and the performance of the investments. The value of those investments may go up or down. The types of investments and the fees unitholders will be charged are described in this document.

We are proposing to resettle certain funds into the Smartshares Exchange Traded Funds (**Scheme**), as follows:

Current Fund	New Fund
NZX 10 Fund	NZ Top 10 Fund
NZX 50 Portfolio Index Fund	NZ Top 50 Fund
NZX Australian 20 Leaders Index Fund	Australian Top 20 Fund
NZX Midcap Index Fund	NZ Mid Cap Fund
NZX Australian Midcap Index Fund	Australian Mid Cap Fund

This is an offer to unitholders in the Current Funds to swap their units for units in the New Funds. This offer is only open to unitholders who are resident in New Zealand.

This offer of units in each New Fund is made in conjunction with the Resettlement proposal, and will only proceed if the Resettlement is approved by an extraordinary resolution of each Current Fund's unitholders. Further information about the Resettlement proposal is contained in the notice of meeting dated 6 October 2016.

What will your money be invested in?

The New Funds are each part of the Scheme, and will be listed on the NZX Main Board.

Each New Fund is designed to track the return of a specific index, which is the same index that is tracked by the relevant Current Fund. For example the NZ Top 10 Fund, which will replace the NZX 10 Fund, is designed to track the S&P/NZX 10 Index.

These investment options are summarised on page 3. More information about the investment target and strategy for each investment option is provided in section 3.

Who manages the Scheme?

Smartshares Limited is the manager of the Scheme. See section 7 for more information.

What are the returns?

Distributions to you will be automatically reinvested as additional units, unless you choose to have the distributions paid out as cash. Distributions for the New Funds are paid six-monthly. See section 2 for more information about the reinvestment of distributions and section 3 for when each fund pays distributions.

How can you get your money out?

Units in the New Funds will be quoted on the NZX Main Board, so you can sell your investment if there are interested buyers. The amount you get may be less than the amount that you invested.

Investments in the Scheme are generally not redeemable for cash. See section 2 for more information.

How will your investment be taxed?

Each New Fund will be a listed portfolio investment entity (**PIE**).

As a listed PIE, each New Fund will pay tax on taxable income at the rate of 28%. See section 6 for more information.



Where can you find more key information?

We are required to publish quarterly updates for each New Fund. The updates show the returns, and the total fees actually charged to investors, during the previous year. The latest fund updates are available at www.smartshares.co.nz. We will also give you copies of those documents on request.

Investment options

Fund	Description and investment objective	Risk indicator	Fund charges (% per annum of the fund's net asset value)
NZ Top 10 Fund (TNZ)	Invests in financial products listed on the NZX Main Board and is designed to track the return on the S&P/NZX 10 Index.	<p>Potentially lower return Potentially higher return</p>	0.60%
NZ Top 50 Fund (FNZ)	Invests in financial products listed on the NZX Main Board and is designed to track the return on the S&P/NZX 50 Portfolio Index.	<p>Potentially lower return Potentially higher return</p>	0.50%
Australian Top 20 Fund (OZY)	Invests in financial products listed on the Australian Securities Exchange (ASX) and is designed to track the return on the S&P/ASX 20 Index.	<p>Potentially lower return Potentially higher return</p>	0.60%
NZ Mid Cap Fund (MDZ)	Invests in financial products listed on the NZX Main Board and is designed to track the return on the S&P/NZX Mid Cap Index.	<p>Potentially lower return Potentially higher return</p>	0.75%
Australian Mid Cap Fund (MZY)	Invests in financial products listed on the ASX and is designed to track the return on the S&P/ASX Mid Cap 50 Index.	<p>Potentially lower return Potentially higher return</p>	0.75%

* Market index returns have been used to complete the risk indicators for the above funds, as these funds have not been in existence for 5 years. As a result the risk indicators may provide a less reliable indicator of the potential future volatility of the funds.

Each New Fund has an establishment fee of \$30. This fee does not apply to the swap of units under this Resettlement Offer, nor to subsequent contributions to the same New Fund, or if you buy units in a New Fund on market through an NZX Participant or financial adviser (although the NZX Participant or financial adviser may charge you a fee for its services).

For institutional investors, each New Fund has a basket contribution fee of \$800, and a basket withdrawal fee of \$800.

See section 4 for an explanation of the risk indicator and for information about other risks that are not included in the risk indicator. To help you clarify your own attitude to risk, you can seek financial advice or work out your risk profile at www.sorted.org.nz/tools/investor-kickstarter.



Table of Contents

1. Key information summary	2
2. How does this investment work?	5
3. Description of your investment options	7
4. What are the risks of investing?	8
5. What are the fees?	10
6. What taxes will you pay?	12
7. Who is involved?	13
8. How to complain	14
9. Where you can find more information	15
10. How to apply	16



2. How does this investment work?

Each New Fund is designed to provide the same benefits as a unitholder's investment in a Current Fund. Like the Current Funds, the New Funds provide:

- ▶ **Diversification:** Each New Fund provides an investment in a range of quoted financial products, spreading your risk more broadly.
- ▶ **Lower costs:** The New Funds keep costs down because we do not need to make active investment decisions, which may require spending on research and analytical expertise.
- ▶ **Flexibility:** The units in the New Funds will trade like listed shares.
- ▶ **Transparency:** As units in the New Funds will be quoted on the NZX Main Board, they give you the same transparency as an investment in listed shares.

Each New Fund is designed to track the return on a specific index. The New Funds buy and sell financial products so that the proportion of each of the financial products held by the New Fund is close to the weighting of each of the financial products included in the index tracked by the New Fund.

Each New Fund aims to provide a return to investors that matches the investment objective for the fund, less tax, fees and costs.

The Scheme is a managed investment scheme under the Financial Markets Conduct Act 2013. To protect the interests of investors, the Scheme's investments are held by independent custodians, while our operations are supervised by an independent supervisor, Public Trust. The Scheme is governed by a master trust deed between the supervisor and us, and each New Fund is established as a separate trust.

Your money is pooled and invested with other investors' money.

This Resettlement Offer is only open to unitholders in the Current Funds who have an address listed on the Current Fund's register that is within New Zealand. This Offer will only proceed in relation to each New Fund if the resolution to approve the Resettlement is approved by extraordinary resolution of the unitholders in the relevant Current Fund.

After you swap your units in a Current Fund for units in a New Fund, every time you pay money into the Scheme you will receive units in the New Funds you invest in. The number of units that you hold in a New Fund represents your proportionate interest in that New Fund. All units in a New Fund have equal value.

If you currently participate in the Regular Savings Plan of a Current Fund, this will automatically continue for the New Fund you swap into. You can change your Regular Savings Plan at any time by emailing us at smartshares@linkmarketservices.co.nz

Units only give a beneficial interest in New Fund assets and do not give you any right to any particular asset of a New Fund.

All New Funds have assets (the investments of the New Fund) and liabilities (the taxes, fees and costs payable by the New Fund). All liabilities incurred in respect of a New Fund will be met from the assets of that fund. If the investments in a New Fund are not sufficient to meet its liabilities, the investments in another New Fund cannot be used to meet those liabilities.

Distributions to you will be automatically reinvested as additional units, unless you choose to have the distributions paid out as cash. Distributions are paid six-monthly. See section 3 for when each New Fund pays distributions.

The NZ Top 10 Fund, NZ Top 50 Fund, and NZ Mid Cap Fund may undertake financial product lending (which generates additional revenue for the funds). We typically lend financial products to a financial institution (**borrower**) that does not have sufficient financial products to complete a sale that it has agreed to, and therefore borrows financial products from one of the New Funds listed above to meet its obligations. After completion of the sale, the borrower returns replacement financial products to the New Fund, together with an amount equal to any dividends that may have become payable over the loan period.



Making investments

You can invest in a New Fund at any time. After you have swapped your units in a Current Fund for units in a New Fund, you can make further investments, either through: (a) a cash application for further units (the minimum contribution amount is \$250); or (b) the regular savings plan (the minimum contribution amount is \$50 per month); or (c) the reinvestment of distributions. Further information about these options is available at www.smartshares.co.nz. Once the units are quoted on the NZX Main Board, you can also buy units on market through an NZX Participant or financial adviser.

Contributions will usually be direct debited from your bank account on or about the 20th day of the month and units will usually be allocated to you on or about the 3rd business day of the following month. You will receive a statement setting out details of your updated investments (you can also view this information at www.linkmarketservices.co.nz).

Institutional investors can make basket contributions following the Resettlement.

Withdrawing your investments

Units in the New Funds will be quoted on the NZX Main Board, so you will be able to sell your investment through an NZX Participant or financial adviser if there are interested buyers.

Investments in the Scheme are generally not redeemable for cash.

Institutional investors can make basket withdrawals following the Resettlement.

How to switch between funds

You cannot switch from one New Fund to another New Fund. If you want to change funds, you must sell your investment in the first fund and then buy an investment in the second fund.



3. Description of your investment options

Description, investment objective and target investment mix	Risk indicator	Minimum suggested investor timeframe	Distributions
<p>NZ Top 10 Fund (TNZ)</p> <p>Invests in financial products listed on the NZX Main Board and is designed to track the return on the S&P/NZX 10 Index.</p> <p>▶ 100% Australasian equities</p>	<p>Lower risk Higher risk⁺</p> <p>Potentially lower return Potentially higher return</p>	5–10 years	June and December
<p>NZ Top 50 Fund (FNZ)</p> <p>Invests in financial products listed on the NZX Main Board and is designed to track the return on the S&P/NZX 50 Portfolio Index.</p> <p>▶ 100% Australasian equities</p>	<p>Lower risk Higher risk⁺</p> <p>Potentially lower return Potentially higher return</p>	5–10 years	June and December
<p>Australian Top 20 Fund (OZY)</p> <p>Invests in financial products listed on the ASX and is designed to track the return on the S&P/ASX 20 Index.</p> <p>▶ 100% Australasian equities</p>	<p>Lower risk Higher risk⁺</p> <p>Potentially lower return Potentially higher return</p>	5–10 years	June and December
<p>NZ Mid Cap Fund (MDZ)</p> <p>Invests in financial products listed on the NZX Main Board and is designed to track the return on the S&P/NZX Mid Cap Index.</p> <p>▶ 100% Australasian equities</p>	<p>Lower risk Higher risk⁺</p> <p>Potentially lower return Potentially higher return</p>	5–10 years	June and December
<p>Australian Mid Cap Fund (MZY)</p> <p>Invests in financial products listed on the ASX and is designed to track the return on the S&P/ASX Mid Cap 50 Index.</p> <p>▶ 100% Australasian equities</p>	<p>Lower risk Higher risk⁺</p> <p>Potentially lower return Potentially higher return</p>	5–10 years	June and December

* Market index returns have been used to complete the risk indicators for the above funds, as these funds have not been in existence for 5 years. As a result the risk indicators may provide a less reliable indicator of the potential future volatility of the funds.

See the Smartshares Exchange Traded Funds – Market Indices document on the offer register at www.business.govt.nz/disclose for more information about the indices referred to above (including the S&P Dow Jones Indices general disclaimer).

The Statement of Investment Policy and Objectives (SIPO) for the Scheme sets out the investment policies and objectives for the Scheme and each New Fund. We may change the SIPO at any time, but will give you at least 30 days’ notice of any change that is expected to have a material effect on you.

The SIPO is available at www.smartshares.co.nz. Material changes to the SIPO will be described in the Scheme’s annual report.

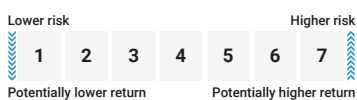
Further information about the assets in each New Fund can be found in the fund updates at www.smartshares.co.nz.



4. What are the risks of investing?

Understanding the risk indicator

Managed funds in New Zealand must have a standard risk indicator. The risk indicator is designed to help investors understand the uncertainties both for loss and growth that may affect their investment. You can compare funds using the risk indicator.



See section 3 for the risk indicators which have been calculated for each of the New Funds.

The risk indicator is rated from 1 (low) to 7 (high). The rating reflects how much the value of the New Fund's assets goes up and down (volatility). 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.sorted.org.nz/tools/investor-kickstarter.

Note that even the lowest category does not mean a risk-free investment, and there are other risks (described under the heading "Other specific risks") that are not captured by this rating.

This risk indicator is not a guarantee of a New Fund's future performance. The risk indicator is based on the market index return data for 5 years to 30 June 2016 as the New Funds have not been in existence for 5 years. While risk indicators are usually relatively stable, they do shift from time to time. You can see the most recent risk indicator in the latest fund update for each of the New Funds.

General investment risks

Some of the things that may cause a New Fund's value to move up and down, which affect the risk indicator, are:

- ▶ **Market risk:** The risk that a market or a sector of a market that a New Fund invests in declines.
- ▶ **Individual financial product risk:** The risk that changes in the financial condition or credit rating of an issuer of a financial product causes the value of a financial product held by a New Fund to decline.
- ▶ **Liquidity risk:** The risk that an investment is difficult to buy or sell and a New Fund suffers a loss as a result.
- ▶ **Currency risk:** The risk that changes in exchange rates cause the value of an international investment to reduce.



Other specific risks

There are other risks that may increase the risk to returns for investors, which are not reflected in the risk indicator. These risks include:

- ▶ **Passive management risk:** The New Funds are passively managed. This means we buy and sell financial products to track an index. We do not make active investment decisions and will not sell a financial product because the issuer is in financial trouble, unless that financial product is removed from the index being tracked by the New Fund. There is a risk that this could result in lower returns.
- ▶ **Tracking difference risk:** The New Funds are designed to track specific indices. However, a New Fund will not always be able to exactly match the index. This could be for a variety of reasons, including the liquidity of the financial products held by the New Fund and operational error. There is a risk that this could result in an investor's returns being lower than the return on the index.

See the "Other Information – Risks" document on the offer register at www.business.govt.nz/disclose for further information.



5. What are the fees?

You will be charged fees for investing in the New Funds. Fees are deducted from your investment and will reduce your returns. The fees you pay will be charged in two ways:

- ▶ regular charges (for example, fund charges). Small differences in these fees can have a big impact on your investment over the long term; and
- ▶ one-off fees (for example, establishment fees).

These are as follows:

Fund	Fund charges (% per annum of the fund's net asset value)	Other charges
NZ Top 10 Fund (TNZ)	0.60%	Establishment fee: \$30. This fee does not apply to the swap of units under this Resettlement Offer, nor to subsequent contributions to the same New Fund or if you buy units in a New Fund on market through an NZX Participant or financial adviser (although the NZX Participant or financial adviser may charge you a fee for its services). For institutional investors – basket contribution fee: \$800. For institutional investors – basket withdrawal fee: \$800.
NZ Top 50 Fund (FNZ)	0.50%	
Australian Top 20 Fund (OZY)	0.60%	
NZ Mid Cap Fund (MDZ)	0.75%	
Australian Mid Cap Fund (MZY)	0.75%	

The fund charges set out above are deducted from, and reflected in the value of, the New Fund. The New Fund charges include the fees and costs charged by the supervisor, custodians, administration manager and unit registrar. If the actual costs are higher than the estimate, the New Fund charges will be higher than the amounts set out above.

See the “Other Information – Fees” document on the offer register at www.business.govt.nz/disclose for further information about the fees you will be charged for investing in the New Funds.

We retain any interest earned on: (a) the cash temporarily held by the New Funds between the date the cash is received by the New Funds and the date it is distributed; and (b) contributions between the date contributions are received by us and the date they are used to issue investors with units in the New Funds.

The revenue earned from financial product lending is shared equally, with 50% being paid to the New Fund the financial products were lent from, and 50% being paid to us (for administering the lending programme). Financial product lending is discussed in section 2.

The establishment fee is deducted from the initial contribution amount although it does not apply to the swap of units under this Resettlement Offer.

The basket contribution fee is deducted from the contribution amount. The basket withdrawal fee is deducted from the withdrawal amount.

You may be charged other fees on an individual basis for investor-specific decisions or actions.



Example of how fees apply to an investor

Tara invests \$10,000 in the NZ Top 10 Fund. She is charged an establishment fee of \$30 (this fee does not apply if Tara buys units in the fund on market through an NZX Participant or financial adviser).

This brings the starting value of her investment to \$9,970.

She is also charged fund charges, which work out to about \$59.82 (0.60% of \$9,970). These fees might be more or less if her account balance has increased or decreased over the year.

Estimated total fees for the first year

Individual action fees: \$30

Fund charges: \$59.82

This example applies only to the NZ Top 10 Fund. If you are considering investing in other New Funds, this example may not be representative of the actual fees you may be charged.

The fees can be changed

We may change the fees and charges payable by an investor at any time. Where we materially increase a fee or charge, we will give you at least three months' notice of the change.

We must publish a fund update for each New Fund showing the fees actually charged during the most recent year. Fund updates, including past updates, are available at www.smartshares.co.nz.



6. What taxes will you pay?

Each New Fund will be a listed portfolio investment entity. The amount of tax that each New Fund pays will be calculated at the rate of 28%. As a result, even if the rate of tax payable by a New Fund is higher than your marginal rate, you will not get a refund of any of the tax paid by the applicable New Fund.

See the “Other Information – Tax” document on the offer register at www.business.govt.nz/disclose for further information.



7. Who is involved?

About the manager

Smartshares Limited is a managed investment scheme manager. It offers New Zealand's broadest range of passive funds and is a wholly-owned subsidiary of NZX Limited.

Our contact details are:

Smartshares Limited
PO Box 105262
Auckland 1143

Telephone: 0800 808 780

Email: smartshares@smartshares.co.nz

Who else is involved?

	Name	Role
Supervisor	Public Trust	Supervises our operations to protect the interests of investors.
Custodians	BNP Paribas Fund Services Australasia Pty Ltd	BNP Paribas Fund Services Australasia Pty Ltd holds the Scheme's assets on behalf of investors (other than the assets of the NZ Top 10 Fund, NZ Top 50 Fund and the NZ Mid Cap Fund).
	JBWere (NZ) Nominees Limited	JBWere (NZ) Nominees Limited holds the assets of the NZ Top 10 Fund, NZ Top 50 Fund and the NZ Mid Cap Fund on behalf of investors.
Administration manager	BNP Paribas Fund Services Australasia Pty Ltd	Provides asset valuation, unit pricing and fund accounting services.
Unit registrar	Link Market Services Limited	Provides registry services.



8. How to complain

Manager

Complaints about your investment in the New Funds, or the Scheme can be made to us at:

Complaints
Smartshares Limited
PO Box 105262
Auckland 1143

Telephone: 0800 808 780
Email: smartshares@smartshares.co.nz

Supervisor

Complaints can also be made to the supervisor at:

Complaints
Public Trust
PO Box 31543
Lower Hutt 5040

Telephone: 0800 371 471
Email: complaints@publictrust.co.nz

Independent dispute resolution scheme

We are a member of the Financial Services Complaints Limited Scheme (the supervisor is also a member), which is an independent dispute resolution scheme. If you make a complaint to us (or the supervisor), and the complaint cannot be resolved, you may refer it to Financial Services Complaints Limited at:

Financial Services Complaints Limited
PO Box 5967
Wellington 6140

Telephone: 0800 347 257
Email: complaints@fscl.org.nz

The Financial Services Complaints Limited Scheme will not charge you a fee to investigate or resolve a complaint.



9. Where you can find more information

Further information relating to the Scheme and New Funds, including financial statements, annual reports, fund updates and the SIPO, is available on the offer register and the scheme register at www.business.govt.nz/disclose. A copy of the information on the offer register or scheme register is available on request to the Registrar of Financial Service Providers.

The information set out above is available at www.smartshares.co.nz or by contacting us. You can also obtain details of your current investments at www.linkmarketservices.co.nz or by contacting us. This information is available free of charge. See section 7 for our contact details.

You can obtain general information about the Scheme and New Funds at www.smartshares.co.nz.



10. How to apply

If you are a New Zealand resident unitholder in a Current Fund at the record date for the Resettlement, you do not need to take any action to swap your current units for units in the New Funds, which will only occur if the Resettlement is approved.

In order for the Resettlement to proceed the resolutions included in the notice of meeting dated 6 October 2016 for the Current Funds must be approved. We recommend that you vote in favour of those resolutions, for the reasons set out in the notice.

Following the Resettlement, to invest in the New Funds, you can also apply at www.smartshares.co.nz or call us on 0800 80 87 80 to ask for an application form.

Alternatively, you can buy units in the New Funds on market through an NZX Participant (such as a broker). Go to www.smartshares.co.nz for a list of NZX Participants.

You can also ask your financial adviser about the New Funds, as many financial advisers have arrangements for investing in the New Funds through us or buying units in the New Funds through an NZX Participant.