

New Zealand Defence Force KiwiSaver Scheme

Other Material Information

This document consolidates the Other Material Information documents on Disclose.

- Other material information – Risks
- Other material information – Taxation summary
- Other material information – Unit pricing summary
- Summary of Material Contracts
- Market Index Summary
- Conflicts of Interest Summary
- Fee Estimate document

4 November 2024

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General

This Other Material Information Document ("Document") has been prepared to meet 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").

This should be read in conjunction with the Product Disclosure Statement ("PDS") for the New Zealand Defence Force KiwiSaver Scheme which can be viewed on <https://www.nzdfsavings.mil.nz/documents.html>.

Funds

The Scheme offers five multi-sector, diversified Funds which invest in a broad range of asset classes and two single sector Funds which invest in one asset class.

Multi-sector, diversified funds	Single-Sector funds
Conservative	Cash
Moderate	Shares
Balanced	
Growth	
High Growth	

The funds are constituted within the "New Zealand Defence Force KiwiSaver Scheme", registered scheme number SCH10279 ("Scheme"). The Scheme is governed by the Trust Deed and the Funds are invested in accordance with their statement of investment policy and objectives ("SIPO"). You can get an electronic copy of the Trust Deed and SIPO from the scheme register on the Disclose website www.disclose-register.companiesoffice.govt.nz.

Manager

Mercer (N.Z.) Limited

The Manager is Mercer (N.Z.) Limited ("Mercer", "Manager", "we", "us", "our").

Mercer is part of Marsh McLennan. Mercer has been operating in New Zealand since 1957 providing investment, actuarial consulting and administration services to employer-based superannuation and KiwiSaver schemes as well as investment services to the wholesale sector.

We were granted a licence to act as the manager of a registered scheme under the FMC Act by the Financial Markets Authority ("FMA") on 11 June 2015. The licence requires us to maintain 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.

Our responsibilities include:

- maintaining the investment governance framework including effective investment policies;
- establishing the investment philosophy and investment process;
- setting investment objectives and risk tolerance for the Funds;
- determining investment strategy for each Fund. This includes the Benchmark Asset Allocation, ranges, other limits and appropriate indices;
- implementing investment strategy; and
- monitoring fund investment performance relative to objectives and compliance with strategy limits.

Investment Managers

Mercer employs a multi-manager investment approach.

Supervisor and Custodian

Trustees Executors Limited is the supervisor ("Supervisor") of the Funds.

Functions

The Supervisor has the following functions:

- Acting on behalf of investors in relation to us, any matter connected to the Trust Deed or the terms of offer, any contravention or alleged contravention of our obligations as the Manager, and any contravention or alleged contravention of the FMC Act by any other person in connection with the New Zealand Defence Force KiwiSaver Scheme.
- Supervising the performance by us of our functions and obligations as Manager (including, compliance with the Trust Deed).
- Ensuring that property is held, in accordance with the FMC Act.
- Performing or exercising any other functions, powers, and duties conferred or imposed on it by the FMC Act, the Financial Markets Supervisors Act 2011 or the Trust Deed.

Custodian

As at the date of this Document, the Supervisor holds the bank accounts of New Zealand Defence Force KiwiSaver Scheme and delegates the function of holding the property of the Funds to BNP Paribas Fund Services Australasia Pty Ltd (trading as BNP Paribas Securities Services) ("Custodian").

As required by the FMC Act, the Supervisor and the Custodian are independent of us.

Incorporation and parent company

The Supervisor was incorporated under the Companies Act 1860 in New Zealand on 6 July 1881 and was re-registered under the Companies Act 1993 on 30 June 1997.

Supervisor's licence

The Supervisor has been granted a licence under section 16(1) of the Financial Markets Supervisors Act 2011 to act as a Supervisor in respect of debt securities and registered schemes for a term expiring 16 January 2028.

The Supervisor's licensed status can be verified on the FMA's website: www.fma.govt.nz by clicking on "Finance professionals", "Licensed and Reporting Entities" and searching for "Trustees Executors Limited" or the Supervisor's website: trustees.co.nz. If you have any queries about the licence, please contact the Supervisor in the first instance.

Manager and Supervisor's indemnity

Subject to the limits on permitted indemnities under the FMC Act, Mercer and the Supervisor are able to be indemnified out of the Funds for all liabilities and expenses incurred by Mercer or the Supervisor in relation to the proper performance of our general duties and our duties to comply with the relevant professional standard of care under the FMC Act in respect of the Funds, the Scheme and this offer. However, Mercer and the Supervisor remain liable for losses, costs and expenses arising from a breach of trust where Mercer or the Supervisor fail to show the degree of care and diligence required.

Unit Pricing

The investment portfolios operate on a unitised basis. The beneficial interest in each investment portfolio is divided into units (including, if Mercer determines, fractions of units). Except where separate classes of units have been created, all units referable to an investment portfolio shall be of one class and confer identical rights and interests.

Mercer will issue units in the relevant investment portfolio or investment portfolios in respect of amounts received by or transferred into the scheme (net of any amount that we consider appropriate to deduct for fees, tax etc.) based upon the relevant unit price or unit prices on the next valuation day after the receipt or transfer.

Mercer will, in respect of amounts debited to the scheme, amounts transferred from or within the scheme, or amounts withdrawn from the scheme, cancel the number of units determined by dividing the amount debited, transferred or withdrawn in respect of the relevant investment portfolio or investment portfolios by the relevant unit price or unit prices on the applicable valuation day. This is usually the day subsequent to when Mercer has made a final determination that the debit, transfer or withdrawal shall be made.

Valuation

The governing documents set out the principles which are applicable to the valuation of the Scheme's investments. If Mercer determines that the valuation principles set out in the governing documents are not applicable to any investments, the Scheme's investments must be valued using such other principles as are determined by Mercer, provided that the valuation method used is applied on a consistent basis over time and that, if Mercer intends to depart from the previously applied valuation method, such departure follows timely notice to, and consultation with, the Supervisor.

Issue Price

The issue price for units is calculated by dividing the net value of the relevant investment portfolio as at the relevant valuation day less applicable "transaction costs" (as that term is defined in the Trust Deed), by the number of units in issue referable to the investment portfolio at that valuation day. Application / contributions identified on a business day are normally processed on that business day to the member's account. Units will be purchased once unit prices are known (normally in two business days' time).

Net Value

The net value of an investment portfolio is the value of the investments less the liabilities of the scheme relating to that investment portfolio and an appropriate proportion of the liabilities of the scheme which are shared among all investment portfolios as determined by Mercer.

For the purpose of issuing and redeeming units Mercer must calculate the net value of each investment portfolio at least once per week and Mercer may recalculate the net value of each investment portfolio more often if Mercer considers it to be appropriate.

Mercer will calculate the income tax liability separately for each investment portfolio or class of units in the scheme as required by law. The liability for tax in respect of any investment portfolio or class of units will vary depending on the Prescribed Investor Rate ("PIR") applied to that investment portfolio or class of units. This means that the issue price of units that your account is invested into, net of the tax liability, will vary according to the PIR that you have notified to Mercer.

Bonus Units

Instead of making a payment out of an investment portfolio Mercer may issue bonus units in that investment portfolio.

Redemption of Units

Benefit payments and withdrawals will be made by way of redemption and cancellation of units.

Mercer will redeem units at a redemption price calculated by dividing the net value of the investment portfolio at the relevant valuation day less applicable “transactions costs” (as that term is defined in the Trust Deed), by the number of units in issue referable to the investment portfolio at that valuation day.

Where a request is received after 4:00pm on a business day it will normally be processed with an effective date of the following business day.

In order to calculate a withdrawal amount, Mercer uses the unit prices available at the time it processes the withdrawal. A member will not receive a unit price for a date earlier than the date the withdrawal form is received (note unit prices for each business day are generally available two business days later). Payments may take up to five business days to process from when Mercer receives the required withdrawal form. In some circumstances, withdrawals will take longer to process if the withdrawal form is not fully complete, or the withdrawal requires additional approval.

A switch is considered a withdrawal from one fund and an application for units in another fund. Valid switch instructions received before 4.00pm on a business day (New Zealand time) will be processed using the declared unit prices for that day, once known. Investment switch requests received after 4.00pm on a business day (New Zealand time) will be processed effective the following business day (and will be processed using the following day’s declared unit price). Note that unit prices for each business day are generally available two business days later. Unit prices are not calculated for weekends or public holidays.

Backdating transactions that result in any impact to unit prices (other than the below) is not permitted unless Mercer approves this in advance.

Suspension

Mercer may suspend the issue or redemption of units during any period Mercer considers the issue price or the redemption price cannot be calculated in a fair manner. Mercer may also suspend redemption of units when Mercer is unable to realise sufficient of the underlying assets of the investment portfolio in order to satisfy fully a redemption request.

In the event that a fair value of assets cannot be determined, or a unit price cannot be determined (e.g. investment markets close, systems failure, etc.), Mercer will accept a delay of up to 48 hour before it issues unit prices.

However, if unit prices are not calculated within this timeframe, Mercer’s policy is to adopt soft unit pricing by indexing the latest unit prices where possible using the change in value of underlying assets or the change in indices used for checking unit prices provided this approach remains fair and equitable. Mercer’s policy is to continue soft pricing provided it is fair and equitable and that it can be reasonably expected that normal unit pricing will be able to re-commence within a period of no more than 10 working days (e.g. while underlying investment vehicles undertake distributions). Where it is not possible to reliably determine when normal unit pricing can commence, Mercer will resolve whether to continue soft pricing or to suspend processing. In this regard, it will give consideration to whether soft pricing is no longer deemed fair and equitable in making this resolution.

If Mercer suspends processing, Investors will be advised of the relevant details (e.g. via website). Instructions received during the period over which transactions have been suspended will be processed once the suspension period ends. Unless otherwise resolved by Mercer, suspended transactions will be processed at the prevailing unit prices.

Provision for fees and expenses

Currently Mercer deducts the fees set out in the scheme Product Disclosure Statement (PDS) and may pay other parties fees as required by the Trust Deed or legislation. If necessary, this will be done by redeeming the appropriate number of units or fractions of a unit allocated to a member account or deducting the charges from amounts contributed or transferred to the scheme. In the case of the investment management fee and recovery of costs, charges, expenses and outgoings incurred by us and the Supervisor in connection with the performance of their duties, these will be recovered from the investments of the scheme generally before unit prices are determined. Mercer reserves the right to charge lower fees in respect of any particular member as Mercer thinks appropriate.

Information about market indices

Market index returns have two main applications within the scheme:

- As the Benchmark Portfolio against which, for each fund, outperformance will be sought for periods of one year and longer.
- In the calculation of a fund's risk indicator where 5 years of returns are required.

Fund Name	Index type up to March 2022	Index type from March 2022
Cash	Market	Market
Conservative	Composite	Market
Moderate	Composite	Market
Balanced	Composite	Market
Growth	Composite	Market
High Growth	Composite	Market
Shares	Market	Market

Cash and Shares funds

These funds have used the market index returns since inception.

Conservative, Moderate, Balanced, Growth and High Growth funds

Absolute return indices were used up to 30 September 2018 for the unlisted property and unlisted infrastructure assets.

In line with the Financial Markets Conduct (Market Index) Exemption Notice 2018 (which has since been replaced by the Financial Markets Conduct (Market Index) Exemption Notice 2023), the absolute return indices were replaced with a composite of market and peer group indices as these are more likely to be useful to investors when assessing the performance as it is representative of the investable universe for those asset classes.

Due to a change in investment policy from 31 August 2020, composite returns are used where applicable up to that date in the calculation of a fund's risk indicator where 5 years of returns are required.

In March 2022 the Scheme disinvested from the unlisted property and unlisted infrastructure assets so it no longer use peer group indices.

The market index return for each fund is calculated using the weighted return of each asset class benchmark index and the specific Benchmark Asset Allocation asset class weights of each fund. Details of these are contained in section 6 of the Statement of Investment Policy and Objectives (SIPO). The SIPO can be obtained from www.disclose-register.companiesoffice.govt.nz. (Search under Schemes for the New Zealand Defence Force KiwiSaver Scheme or use the scheme number "SCH10279").

Asset Class	Benchmark Index	Current taxation treatment	Current NZD Strategic Hedging Level (before tax) ²	Market Index (M) or Peer Group Index (P)
Trans-Tasman Shares	S&P/ NZX 50 Index with Imputation Credits	- ¹	-	M
Unhedged Overseas Shares	MSCI World Index with net dividends reinvested in NZD	FDR	0%	M
Hedged Overseas Shares	MSCI World Index with net dividends reinvested (100% hedged to NZD on an after-tax basis)	FDR	139%	M
Emerging Markets	MSCI Emerging Markets Index with net dividends reinvested in NZD	FDR	0%	M
Listed Property	FTSE EPRA/NAREIT Developed Index (with net dividends reinvested) (100% hedged to NZD on an after-tax basis)	FDR	139%	M
Listed Infrastructure	FTSE Global Core Infrastructure 50/50 Index with net dividends reinvested (100% hedged to NZD on an after-tax basis)	FDR	114% ³	M
New Zealand Sovereign Bonds	S&P/NZX Government Bond Index	CV	-	M
Overseas Sovereign Bonds	JP Morgan Global Government Bond Index (100% hedged to NZD on an after-tax basis)	CV	100% ³	M
Global Credit	Bloomberg Global Aggregate Corporate Index (100% hedged to NZD on an after-tax basis)	CV	100% ³	M
Cash	S&P/NZX Bank Bill 90-Day Index	CV	-	M

¹NZ Equities dividends taxed on a PIE basis. Australian Equity exposure is taxed on a Portfolio Investment Entity (PIE) or FDR basis depending on the stock.

²Currency hedging is implemented on an after-tax basis. For some asset classes or strategies, the level of hedging may be higher than 100% on a pre-tax basis, due to the method in which the underlying assets and hedges are taxed. The rate of tax is assumed to be at 28%. Pretax returns will be monitored using gross hedging ratios.

³Hedging applies to AUD exposure where underlying assets are fully hedged to AUD.

Note

FDR – Fair Dividend Rate

CV – Comparative Value

More Information

Should you require more information regarding the benchmark indices used please call Mercer on 0800 333 787. You can also obtain more information about the market indices by visiting the following index provider's websites (which may change from time to time).

Index Provider	Website
MSCI	https://www.msci.com/our-solutions/indexes
S&P	https://www.spglobal.com/spdji/en/
Bloomberg	https://www.bloomberg.com/professional/product/indices/
FTSE	https://www.lseg.com/en/ftse-russell/indices/infrastructure
JP Morgan	https://www.jpmorgan.com/insights/global-research/index-research/indices

Fees and expenses

Total annual fund charges in the product disclosure statement (PDS) have been estimated as the fees can vary.

Managers basic fee

Included in total annual fund charges is the Manager's Basic Fee as a percentage of the net asset value of each fund. The Manager's Basic Fee has been estimated as it can vary. It reflects a rebate which applies to the aggregate funds under management in the New Zealand Defence Force Savings Schemes which has been based on the actual rebate for the year to 31 March 2024.

Other Management and Administration Charges

Included in the estimate are supervisor fees as these can change, for example due to the net asset value fluctuating. The current annual estimate is based on the deduction at the date of this document.

Other Expenses

Expenses incurred by Mercer, the supervisor and the New Zealand Defence Force can be recovered from the New Zealand Defence Force KiwiSaver Scheme (Scheme), and these have been estimated.

These expenses include:

- fees for Scheme governance provided to the New Zealand Defence Force; and
- expenses for general financial advice and education services, and limited initial advice provided to individual members on request, from Become Wealth Limited (Become Wealth). These services are available to all members of the Scheme, without any additional charge being made on members who take up the opportunity to access these services. Members are also able to access more detailed personalised advice from Become Wealth at a reduced rate compared to Become Wealth's standard rates, with the costs of those additional services charged by Become Wealth direct to the members concerned, outside the Scheme.

More information about the available services can be found at www.nzdfsavings.mil.nz.

- Mercer implements the current investment strategy for the New Zealand Defence Force KiwiSaver Scheme by investing the Scheme's assets in the Mercer Investment Trusts New Zealand (MITNZ). The MITNZ is a series of wholesale unit trusts which incorporates a range of single sector and diversified multi-sector portfolios and the MITNZ funds have investments managed by underlying investment managers. Where Mercer invests into underlying funds, indirect fees/costs can be charged by external investment trusts or managers, and these have been estimated based on the year to 31 March 2024.

Trading costs

The MITNZ funds incur trading expenses which are the actual costs of buying and selling investments. Trading expenses include brokerage fees, spreads, and associated custody transaction costs, and these are in addition to the estimated fund charges for the Scheme. The MITNZ valuation includes trading expenses which are therefore factored into the Scheme's unit price.

GST

GST may be included in some expenses but is currently not payable on the fees stated. If that changes, GST will be added to the fees, where applicable.

Conflicts of interest

Policy Statement

Conflicts are inherent in any complex financial services organisation, including Mercer's business model where Mercer and/or a related party may be acting as manager, consultant and/or product manufacturer to each other and our clients and customers. As a local entity offering a range of financial products and services to its clients and customers, and as part of a global organisation, Mercer may from time to time have interests which conflict with the interests of its clients and customers. It is also possible that conflicts may arise between our clients and customers.

Mercer and its Directors and Colleagues must:

- Understand their duties to act in the best interest of clients and beneficiaries.
- Take all reasonable steps to identify and prudently manage conflicts across its business operations.
- Disclose any personal relationships, financial interests, outside business activities, political activities, gifts and entertainment, or other such matters that should reasonably be recognised as giving rise to a conflict (whether actual, perceived or potential).
- Resolve conflicts in favour of clients / beneficiaries where conflicts arise between clients/ beneficiaries and Mercer or Mercer Colleagues.
- Resolve conflicts fairly between one client and another client.

Application

The potential for conflicts of interest to arise is a key consideration for Mercer and the Conflicts Management Policy applies to all employees. Mercer means Mercer (N.Z.) Limited and its subsidiaries.

Conflicts Identification

Mercer has systems and procedures in place to identify conflicts of interest. Once a conflict has been identified and declared to their people leader and to the Conflicts Officer, or via an internal Ethics and Compliance helpline, it will be assessed.

Assessment of Conflicts

Once a conflict (actual, perceived or potential) has been notified, a number of considerations are applied by the Conflicts Officer to assess the conflict. These include, but are not limited to:

- Whether the conflict can be avoided or, if not, managed within the Conflicts Management Framework.
- Any legal obligations in relation to the conflict.
- The potential impact to all parties.
- The likelihood and extent of the conflict disadvantaging a third party, and whether it has previously been disclosed to third parties.
- The risk mitigation measures which could be adopted including disclosure to the affected party/entity and implementation of information barriers.

Management of Conflicts

Mercer has established procedures which are designed to identify and manage conflicts, including various organisational actions and administrative routines to safeguard the interests of clients and customers and to minimise the potential for conflicts to arise. Mercer employs a range of mitigation measures to protect clients' and customers' interests from conflicts that may arise from its own or others' activities, including:

- Avoidance.
- Disclosure.
- Control – putting in place arrangements to ensure the impact of the conflict or potential conflict is reduced to an acceptable level, which involves evaluating those conflicts and decided upon implementing an appropriate response that ensures the quality of services provided is not compromised; or
- A combination of any of the measures above.

Any decision as to how a conflict situation may be resolved is made by the Conflicts Officer in accordance with this Policy. If a conflict situation arises which has not previously been identified as a potential conflict and no recommended management plan exists, the Conflicts Officer may, as circumstances require, refer the matter to the Chief Risk & Compliance Officer (CRCO) and Chief Legal Counsel (CLC) for assessment. If the CRCO and CLC are unable to reach an agreement regarding the management of the conflict, or the CRCO, CLC or Conflicts Officer are themselves conflicted, the matter must be escalated to the Chair of the Mercer Board.

Conflicts Oversight

The conflicts register is maintained and monitored by the Conflicts Officer. On an annual basis the Conflicts Officer reviews the registers to determine if the conflict is still relevant, and if so that the measures in place to manage the conflict remain adequate.

Directors confirm their conflicts quarterly at each board meeting and senior managers are asked to confirm annually.

Conflicts Management Procedures

Mercer's Conflicts Management Policy may be reviewed from time to time and Mercer may make changes as appropriate.

Our Funds' investment managers must comply with a professional standard of care i.e., in exercising any powers, or performing any duties as investment manager, they must exercise the care, diligence, and skill that a prudent person engaged in the profession of investment management would exercise in the same circumstances.

We have in place a process with the Supervisor for identifying, notifying and certifying or obtaining consent for related party transactions as required by the FMC Act.

Material contracts

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

Trust Deed

The New Zealand Defence Force KiwiSaver Scheme is a KiwiSaver scheme registered under the Financial Markets Conduct Act 2013 ('**FMCA**') into which members of the Defence Force or the Defence Community or other persons may invest.

The Scheme was established and is governed by a trust deed between the Manager and the Supervisor dated 16 September 2015, as amended from time to time ('**Trust Deed**'). The Trust Deed is a contract between us and the Supervisor for the benefit of Investors.

Management and Administration Agreements

BNP Paribas Fund Services Australasia Pty Ltd

Certain aspects of the Funds' administration management functions are sub-contracted by Mercer to BNP Paribas Fund Services Australasia Pty Ltd (trading as BNP Paribas Securities Services). BNP Paribas Fund Services Australasia Pty Ltd is also the custodian of the Funds.

Mercer (Australia) Pty Limited

Pursuant to the services agreement dated 11 August 2021 as amended (the "Agreement") between Mercer (N.Z.) Limited ("Mercer") and Mercer (Australia) Pty Limited ("MAPL"), Mercer has appointed MAPL to provide support services in respect of corporate functions and fund services administration not otherwise provided by Mercer. The agreement is subject to specific service levels and performance indicators. A fee is paid by Mercer to MAPL. The Agreement may be terminated by either party on an agreed period of notice, or such lesser period as may be agreed by MAPL and Mercer.

Mercer Investments (Australia) Pty Limited and Mercer Consulting (Australia) Pty Limited

Pursuant to the services agreement dated 1 May 2024 (the "Agreement") between Mercer (N.Z.) Limited ("Mercer") and Mercer Investments (Australia) Limited ("MIAL"), Mercer has appointed MIAL as investment consultant to provide services associated with the management and investment in respect of certain assets of the Mercer funds. Services were previously provided under an agreement between Mercer and MIAL dated 1 July 2014

Under a novation agreement dated 23 May 2023 (effective 1 January 2023) (the "Novation Agreement") between MIAL, Mercer Consulting (Australia) Pty Limited (MCAPL) and Mercer, MCAPL is the legal entity responsible for providing Mercer with investment consulting services (previously provided by MIAL).

The Agreement and the Novation Agreement (the "Agreements") are subject to specific service levels and performance indicators. A fee is paid by Mercer to each of MIAL and MCAPL. The Agreements may be terminated by either party on an agreed period of notice, or such lesser period as may be agreed between Mercer and the relevant party being either MIAL or MCAPL.

Mercer Global Investments Europe Limited

Pursuant to the services agreement dated 14 March 2024 with effect from 1 January 2023 (the “Agreement”) between Mercer (N.Z.) Limited (“Mercer”) and Mercer Global Investments Europe Limited (“MGIE”), Mercer has appointed MGIE to provide services in respect of investment management, sales and distribution and other support services to Mercer.

The agreement is subject to specific service levels and performance indicators. A fee is paid by Mercer to MGIE. The Agreement may be terminated by either party on an agreed period of notice, or such lesser period as may be agreed by Mercer and MGIE.

Marsh & McLennan Innovation Centre Limited

Pursuant to the services agreement between Mercer (N.Z.) Limited (“Mercer”) and Marsh & McLennan Innovation Centre Limited dated 3 July 2024 with effect from 1 January 2024 Marsh & McLennan Innovation Centre Limited will provide services in respect of technology and marketing to Mercer.

A fee is paid by Mercer to the Marsh & McLennan Innovation Centre Limited.

Financial Statements and auditor’s report

Financial statements for the New Zealand Defence Force KiwiSaver Scheme are available on the scheme register on the Disclose website www.disclose-register.companiesoffice.govt.nz.

The New Zealand Defence Force KiwiSaver Scheme has a 31 March balance date. The financial statements for the most recent accounting period will be uploaded to the scheme register by 31 July that year.

The Funds' financial statements are audited by a qualified auditor, currently PricewaterhouseCoopers. The auditor's audit report on the financial statements will accompany the financial statements uploaded to the scheme register each year. The auditor's report on the most recent financial statements was not qualified in any respect.

Risks

Returns from your investment with us are not guaranteed. Returns are primarily dependent on the financial performance of the assets we invest in.

What this means is that the value of your investment with us can go up as well as down.

This document should be read with the Product Disclosure Statement (PDS) for the New Zealand Defence Force KiwiSaver Scheme and the recent Fund Updates for the scheme. You can also seek advice from a financial adviser to help you make an investment decision.

The New Zealand Defence Force KiwiSaver Scheme's governing documents including trust deed(s); PDS; Statement of Investment Policy and Objectives (SIPO); and this document can be found at www.disclose-register.companiesoffice.govt.nz (Disclose) (search for Mercer the New Zealand Defence Force KiwiSaver Scheme).

What are the risks of investing?

All investments involve taking some risk and returns are generally dependent upon the financial performance of the assets we invest in.

Assets of the New Zealand Defence Force KiwiSaver Scheme are affected by different risks that can lead to fluctuations in returns and variations between actual and expected returns.

- Funds or combinations of funds which invest in equities or real assets are expected to result in both higher risk and higher returns; and
- Investing in a fund or combination of funds that has less risk (e.g. cash and fixed interest), may result in lower returns.

Scheme members bear the investment risk as fluctuations in investment performance over time directly affect the value of their investments. This means that the value of a member's investment can rise and fall and it is possible that members may receive less on withdrawal than their original investment.

To help reduce the potential negative effects of investment risks, Mercer has adopted a risk management policy.

Risks that affect members' investments include the following:

Risk	Description
Market Risk	The value of investments moves up and down depending on changes in the market, which can include economic, business, technological, tax, political, regulatory changes, liquidity conditions, geo-political, health and other shocks.
Currency Risk	When investing in international assets that are denominated in foreign currencies, there is a risk that those currencies fall or rise in value, affecting the value of those assets from a New Zealand perspective.
Credit/Counterparty risk	An issuer of debt which the fund has invested in or a counter-party to a transaction may fail to perform its contractual obligations or suffer a credit ratings downgrade affecting the value of a particular investment. More broadly, credit spreads can vary over time. This impacts funds invested in cash and fixed interest. A risk that one or more parties involved in a financial transaction may not meet their obligations.
Concentration risk	Concentration of exposure to areas not limited to geography, industries, type of assets.
Liquidity risk	Liquidity risk has two components. Firstly, the risk of the scheme having difficulty in meeting withdrawal requests. Secondly, the risk of investment managers acquiring investments that cannot be sold or otherwise hedged. This impacts funds invested in unlisted assets such as property, infrastructure or commodities.

Asset Allocation Risks

Interest rate risk	Movements in interest rates may adversely affect the price of the funds' investments and impact returns. Cash and fixed interest funds can specifically be affected by these movements and it is possible for returns to be negative.
Equities risk	Investments in equities (shares and listed real assets) can be affected by many factors including: the performance of the relevant company; the company's share price; the ability of the company to pay dividends; movements in sharemarkets, sectors and interest rates and investors' attitudes towards the sharemarket in general.
Real assets risk	Investments in real assets (property, infrastructure or commodities) can be affected by factors including: the performance of the property or infrastructure owning company; the quality of and demand for the assets, commodity market movements and general economic conditions.
Derivative risk	Derivatives may be used for purposes including risk management, prudent investment management and to assist the realisation of Portfolio objectives. The risks associated with derivatives include market risk, credit risk of the counterparty and liquidity risk.

Mercer mitigates the investment risks detailed above by spreading investment across markets and diversifying across a range of investment types. As the manager, Mercer actively manages the funds' underlying investments by a process of research-based selection of a broad range of specialist investment managers who are required to diversify their asset selection and otherwise follow the investment guidelines Mercer sets.

Specific Risks

Manager of managers risk	Mercer is a "manager of managers" and, as such, is dependent upon other managers performing their investment management activities and achieving the outcomes desired by Mercer. There remains a risk that such managers could under-perform or fail to achieve the objectives set out in their policies or investment mandate.
Active management risk	As a "manager of managers" and generally employing an active management approach, we may choose investment managers and/or investments that under-perform.
Investment exclusions risk	Exclusions are currently applied to these funds which may mean they are less diversified in the investment options they can pursue. The funds may therefore forego some potentially profitable opportunities on ethical grounds. Exclusions applied by the Scheme manager may change.

Mercer has a comprehensive Risk Management Framework that sets out how we identify, assess, manage, mitigate and monitor material risks. Some of these risks include:

General Risks	Risk Description	How we mitigate those risks
Regulatory risk	Changes in the law, regulations and other rules in respect of the scheme could impact members' investments e.g. changes in the law could impact the profitability of company that the scheme is invested in.	We liaise with our regulators and other organisations, monitoring regulatory change.
Operational risk	Risk of loss resulting from inadequate or failed internal processes, people and systems.	We have policies and procedures in place which form part of our risk management framework. This has the objective to mitigate the risk of operational failure and address any potential or actual failures in a timely and effective manner.
Third Party risk	There is a risk of the third party may fail to perform their obligations.	We actively monitor our third parties and the services they provide to ensure they meet agreed service levels.
PIE Eligibility risk	The Scheme is a PIE. There is a risk that if a fund fails the PIE eligibility criteria we may lose PIE tax status therefore impacting returns to investors.	We have processes in place to monitor our on-going PIE eligibility within each fund and we proactively manage this risk.
Incorrect PIR Risk	Choosing the incorrect PIR can have significant consequences. If an investor nominates a rate that is higher than it should be, they will pay too much tax on their PIE income. If they choose a rate that is too low, the investor will have to include earnings on their tax return and they may be subject to interest and penalties.	Customer engagement regularly reminds members to check their PIR is correct.

Taxation

The following is a general statement only outlining Mercer's understanding of New Zealand taxation legislation as it affects the New Zealand Defence Force KiwiSaver Scheme and New Zealand-tax resident Members. You are advised to consult your own independent tax adviser as to the taxation consequences of investing in the Scheme.

Mercer does not accept any responsibility for the taxation implications of your investment in the Scheme. Tax legislation, its interpretation and the rates and bases of taxation are subject to change, and the application of tax laws depends on your individual circumstances.

The Scheme's tax year is from 1 April to 31 March of the following year.

Your personal contributions to the Scheme are not tax deductible and are therefore made as after tax contributions.

Employer's Superannuation Contribution Tax (ESCT)

All employer contributions are subject to ESCT. ESCT deducted will be payable to Inland Revenue by the employer. The rate at which ESCT is to be deducted is determined having regard to the total amount of your salary and wages in the previous tax year and the pre-tax employer superannuation contributions, or (if you were not employed for all of the previous tax year) estimates of those amounts for the current tax year.

Your salary or wages plus gross employer contributions in the previous tax year	ESCT rate*
\$0 - \$16,800	10.5%
\$16,801 - \$57,600	17.5%
\$57,601 - \$84,000	30%
\$84,001 - \$216,000	33%
\$216,001 and over	39%

The following thresholds will apply from 1 April 2025:

Your salary or wages plus gross employer contributions in the previous tax year	ESCT rate*
\$0 - \$18,720	10.5%
\$18,721 - \$64,200	17.5%
\$64,201 - \$93,720	30%
\$93,720 - \$216,000	33%
\$216,001 and over	39%

Portfolio Investment Entity (PIE)

The taxable income of the Scheme will be determined by applying the provisions of the Income Tax Act 2007 (“the Income Tax Act”) to the Scheme’s various investments. Because of the Scheme’s PIE status, gains on disposal of shares in New Zealand companies and shares in certain Australian companies that are listed on an approved index of the Australian Securities Exchange will not be taxable income for the Scheme.

Mercer will attribute your share of the net income of each Investment Portfolio (or class within an Investment Portfolio, if applicable) to you, and will pay tax on that attributed income at your notified PIR (in accordance with the PIE tax rules in subpart HM of the Income Tax Act). Noting some investors may elect to have a 0% PIR rate.

The Scheme will use daily allocation and attribution of the Scheme’s taxable income. This means that the income tax on your attributed income from the Scheme will be calculated and reflected in the Unit Price on a daily basis as applicable. In the event that your Member Account is insufficient to meet a tax liability of the Scheme on your attributed income, you are required to indemnify us for the shortfall.

The Scheme has elected to apply the exit calculation option and as such tax payments will be made and reflected against the provision for tax within the unit pricing at the following times:

- Monthly upon full redemptions (within one month of the end of the exit period)
- Annually within one month of the end of the tax year for current members

If at any time, the value of your Units is, or could potentially become, insufficient to cover the Scheme’s accrued tax liability on income attributed to you, this will be deemed a full withdrawal and tax will be deducted on account of the accrued liability.

The Scheme may receive a refundable tax credit for any net loss or for other excess tax credits which are attributed to you under the PIE tax rules in the Income Tax Act. The Scheme will pass on the benefit of any refund which results from that tax credit to you. Foreign tax credits are not refundable tax credits. For this reason, any foreign tax credits are applied against the PIE tax liability before New Zealand tax credits.

The effective tax rate on your investment income may vary from the stated PIRs. The effective tax rate for each Member will depend on the investment mix of each of the Investment Portfolios, as the taxable part of the investment return can vary between Investment Portfolios (for example, where an Investment Portfolio makes gains on the sale of New Zealand shares or certain Australian listed shares, those gains will not be taxable and the effective tax rate on the investment return will be lower).

Where fees are charged directly to your Member Account and those fees are tax deductible, the Scheme will apply those fees as a deduction against the net PIE income which is to be attributed to you. You cannot then claim a deduction for those fees in your income tax return.

Tax paid by the Scheme on income attributed to you is a final tax if you have notified us of your correct PIR and IRD number, and Mercer has been duly notified of any changes to your PIR. You should therefore pay no further tax in relation to that attributed income and you will not need to include that income as taxable income in your income tax return. Any distributions paid by the Scheme to you will also not be taxable and will not have to be included in your income tax return.

If the rate applied to your PIE income is lower than your correct PIR, you will be required to pay any tax shortfall as part of the income tax year-end process. If the rate applied to your PIE income is higher than your PIR, any tax over-withheld will be used to reduce any income tax liability you may have for the tax year and any remaining amount will be refunded to you.

This income tax and any associated tax penalties are not the responsibility of the Scheme or Mercer.

Inland Revenue has the discretion to override a notification of a PIR and to require us to apply an alternative rate where Inland Revenue considers that the notified PIR is incorrect.

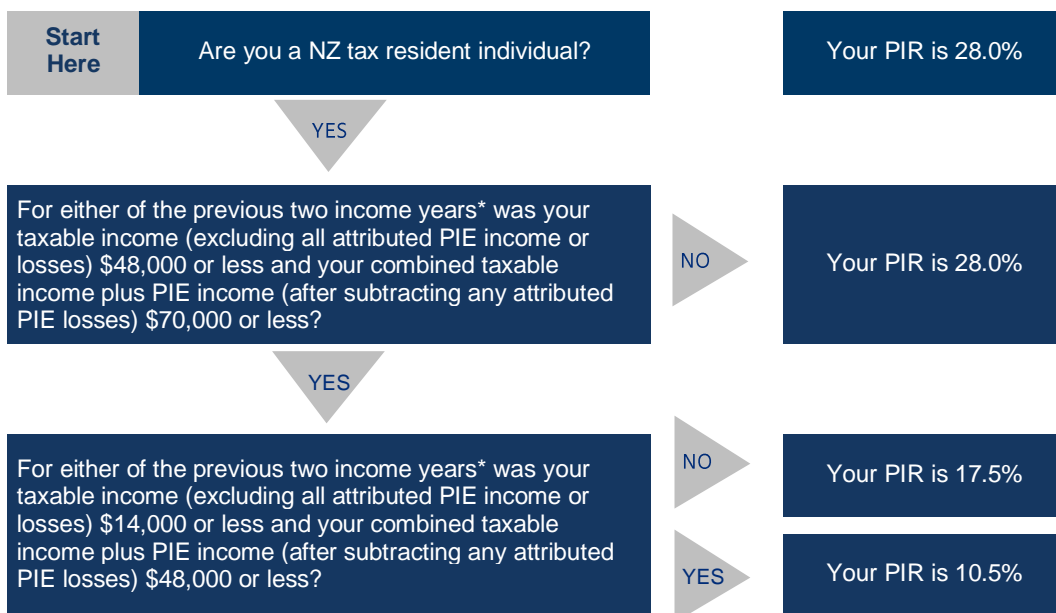
Prescribed Investor Rate (PIR)

If you are eligible for a PIR of less than 28% and wish that lower rate to apply to the Scheme's tax year beginning 1 April, you must provide us with your PIR and IRD number. Mercer is not permitted by the Income Tax Act to retrospectively change the tax liability or tax credit attributed to you if you later notify a lower PIR.

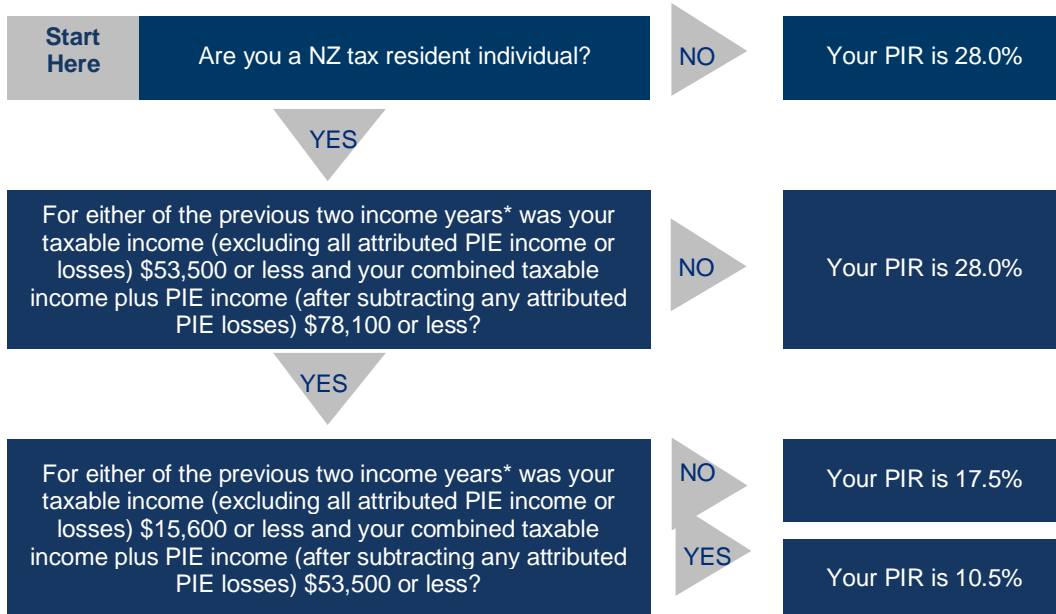
PIRs are prescribed by the Income Tax Act and are generally based on your taxable income in either of the two income years preceding the Scheme's current tax year.

You can use the diagram below as a guide to work out your PIR up until 31 March 2025. Amendments were made to increase personal income tax thresholds with effect from 31 July 2024. Consequential changes to PIR thresholds will not take effect until 1 April 2025.

Additional detail is also provided on the IR website; www.ird.govt.nz/roles/portfolio-investment-entities/using-prescribed-investor-rates.



The following thresholds will apply from 1 April 2025:



*Previous two income years refers to the two years prior to the tax year that the PIR is being applied to. An income year is generally 1 April to 31 March of the following year.



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