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# Russell Investment Funds

Other Material Information

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## Introduction

This is an important document in relation to your investment in the Russell Investment Funds and should be read together with the Product Disclosure Statement ('PDS') the Statement of Investment Policies and Objectives ('SIPO') and other documents held on the register at [www.companiesoffice.govt.nz/disclose](http://www.companiesoffice.govt.nz/disclose) ('Disclose Register'). If you are a retail investor you must be given a copy of the PDS before we can accept your application for Units.

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'). All legislation referred to in this Document can be viewed at [www.legislation.govt.nz](http://www.legislation.govt.nz).

In this Document, "you" or "your" refers to a person or entity that invests in the Russell Investment Funds ('Scheme'), whether directly or through a wrap platform or similar administration and custodial service. If you hold units through a wrap platform or similar administration and custodial service, please note page 4 "Investing through administration and custodial services (e.g. wrap platforms)". "We", "us", "our" or "IIS" refers to Implemented Investment Solutions Limited as Manager of Scheme. When we use the word "current" or "currently" in relation to any legislation, regulation, policy, information, activity or practice, we refer to these at the date of this document. Any legislation, regulation, policy, information, activity or practice may be reviewed or changed without us notifying you.

Capitalised terms have the same meaning as in the Trust Deed for the Implemented Investment Solutions Funds ("Trust Deed"), unless they are otherwise defined in this Document. There is a Glossary of defined terms on page 19. Some terms are defined in the document itself.

## Other information on the Funds

This document relates to the offer of units in the following funds ('Funds'):

- Russell Investments Global Shares Fund
- Russell Investments Hedged Global Shares Fund
- Russell Investments NZ Shares Fund
- Russell Investments NZ Fixed Interest Fund
- Russell Investments Global Fixed Interest Fund

The Funds are constituted within a managed investment scheme called the "Russell Investment Funds", registered scheme number SCH10586. The Scheme is governed by the Trust Deed dated 29 July 2016 and the Funds are invested in accordance with their SIPO. You can get an electronic copy of the Trust Deed and the current SIPO from the scheme register on the Disclose website [www.business.govt.nz/disclose/](http://www.business.govt.nz/disclose/).

## Investing through administration and custodial services

The Funds are offered through certain administration and custodial services. These include "wrap platforms". When you invest through an administration and custodial service you do not hold Units in the Funds directly. Instead, your Units are held in the name of a custodial entity for the wrap platform on your behalf. This means many of the legal rights attaching to those Units are held by that custodial entity rather than by you, and so your ability to exercise those rights is subject to the terms and conditions agreed between you and the provider of the service. You are encouraged to familiarise yourself with those terms and conditions as set out in service provider's marketing and legal documentation.

## Other information on the parties involved

### Manager

Implemented Investment Solutions Limited ('IIS') is the manager of the Funds.

IIS is a fund management company specialising in establishing and managing New Zealand-domiciled funds. With a deep understanding of New Zealand's investment management industry, IIS works with both local and global investment managers to enable investors to access these specialist managers' investment expertise within funds and solutions that have been tailored for New Zealand's tax and legislative environment.

IIS was granted a licence to act as the manager of a registered scheme under the FMC Act by the Financial Markets Authority ('FMA') on 25 August 2015. The licence is 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.

The names and contact details for directors and information on the shareholders of IIS are available at [www.companiesoffice.govt.nz/companies](http://www.companiesoffice.govt.nz/companies). This information may change from time to time without notice to you.

### Investment Manager

Russell Investment Group Limited is the investment manager ('Investment Manager') of the Funds. Russell Investment Group Limited is part of Russell Investments. The Investment Manager brings together the world's leading investment managers and strategies, in an agile and diversified portfolio, designed to help achieve investors' goals.

The Russell Investment Funds are managed using Russell Investments' open architecture investment selection process, scouring the globe for the most suitable investment opportunities, wherever they reside. The Investment Manager believes that careful blending of complementary managers and strategies diversifies portfolio risk by relying on differentiated sources of returns. This includes the use of direct investment strategies managed by related parties of the Investment Manager that deliver precise and flexible factor exposures to manage the portfolio's overall risks.

Further information about Russell Investments may be found at [www.russellinvestments.com/nz/](http://www.russellinvestments.com/nz/).

### Supervisor

The Supervisor ('Supervisor') of the Scheme is Public Trust and is independent of us.

Public Trust is a statutory corporation and Crown entity established and constituted in New Zealand on 1 March 2002 under the Public Trust Act 2001.

The Supervisor is responsible for supervision of IIS and the Scheme, including:

- Acting on behalf of the Scheme's investors in relation to IIS and any contravention of IIS's issuer obligations;
- Supervising the performance by IIS of its functions and the financial position of IIS and the Scheme; and
- Holding the Scheme's assets or ensuring that the assets are held in accordance with applicable legislative requirements.

The Supervisor holds a licence under section 16(1) of the Financial Markets Supervisors Act 2011 to act as supervisor in respect of managed funds. The Supervisor's licence expires on 16 January 2023. Full details of the current licence can be found on [www.publictrust.co.nz/corporate-trustee-services/who-are-we](http://www.publictrust.co.nz/corporate-trustee-services/who-are-we).

## Custodian

Public Trust RIF Nominees Limited ('Custodian'), a wholly owned subsidiary of Public Trust, is the custodian of the Scheme assets.

As required by the FMC Act, the Custodian is independent of us.

## Administration manager

IIS has appointed MMC Limited ('MMC') as the administration manager for the Funds. Key roles undertaken by MMC include:

- Registry services
- Unit pricing
- Fund accounting

## Other

Other key parties employed by IIS are:

<i>Party</i>	<i>Role</i>
PricewaterhouseCoopers	Auditor
DLA Piper New Zealand	Legal adviser
Deloitte New Zealand	Tax adviser

## Manager and Supervisor's Indemnity

Both we and the Supervisor are entitled to be indemnified out of the relevant Fund. The indemnity covers any personal liability (including Portfolio Investment Entity ('PIE') tax) incurred by or on behalf of a Fund, or any action taken or omitted in connection with the affairs of a Fund (other than in respect of our or the Supervisor's negligence, wilful default or wilful breach of trust). It also covers the costs of any litigation or other proceedings in which such liability has been determined (including legal fees and disbursements). The indemnity ranks in priority to the claims of Investors. It is subject to the limits on permitted indemnities under the FMC Act which only make the indemnity available in relation to the proper performance of the duties under the FMC Act.

We and the Supervisor, in incurring any debts, liabilities or obligations or in taking or omitting any other action for or in connection with the affairs of a Fund, are each deemed to be acting for and on behalf of the Fund and not in our own respective capacities.

Neither the Supervisor nor we, (except as otherwise expressly provided in the Trust Deed) are under any personal liability, nor may resort be had to our private property, for the satisfaction of any obligation of the Fund.

## Material Contracts

The following material contracts are in place in relation to the Funds:

- Implemented Investment Solutions Limited and MMC Limited have entered into an Administration Agreement under which Implemented Investment Solutions Limited delegates certain administrative functions in relation to the Funds to MMC Limited, including registry, fund accounting and unit pricing..
- Implemented Investment Solutions Limited and Russell Investments have entered into a Fund Hosting Agreement under which Implemented Investment Solutions Limited acts as manager and issuer of the Funds.
- Implemented Investment Solutions Limited and Russell Investments have also entered into an Investment Management Agreement under which Russell Investments provides investment management services in respect of the Funds, including the selection of investment managers. That agreement is on standard industry terms.

- As investment manager, Russell Investments has entered into investment management agreements with sub-investment managers for the investment management of certain Funds.
- Implemented Investment Solutions Limited and Public Trust have entered into the Trust Deed for the Implemented Investment Solutions Funds. The Trust Deed appoints the Supervisor as supervisor of the Funds, and the Manager as manager of the Funds.

These contracts may be amended from time to time. Any material amendments will be noted in an updated version of this Document.

## **Conflicts of Interest**

### **Mint Asset Management Limited**

Rebecca Eele is a shareholder of IIS as well as Mint Asset Management Limited ('Mint'). Mint is a specialist investment manager based in New Zealand, and is a manager that may be appointed as a sub-manager of one of the Russell Investment Funds.

As a shareholder of Mint, Rebecca may influence the appointment of Mint to act as a sub-manager of one of the Russell Investment Funds ahead of external, third party investment managers.

### **Russell Investment Group Limited**

Russell Investment Group Limited ("Russell") is a shareholder of IIS as well as being the Investment Manager in respect of the Funds.

### **Funds affected**

Any of the Funds could be affected by these conflicts of interest.

The Russell Investments Global Shares Fund, the Russell Investments Hedged Global Shares Fund and the Russell Investments Global Fixed Interest Fund all currently invest directly into Russell Investments Funds.

### **Management of conflicts of interest**

The FMC Act imposes statutory controls on conflicts of interest:

- A related party transaction in respect of a Fund may only be done if the details are notified to the Supervisor and we: 1) certify the transaction (or series of transactions) is "permitted" on the basis that it compromises investment into a regulated investment in NZ or Australia, or the transaction is on arm's length, or 2) we obtain the Supervisor's consent on the basis that it is in the best interests of investors, or contingent on Special Resolution approval by investors.
- As manager of the Funds, we are subject to various statutory duties in the performance of our duties as manager, including the requirement to act honestly and in the best interests of investors.
- Where we contract out our functions to other parties, such as the investment management of the Funds to Russell Investment Group, we must ensure the persons to whom we contract those functions perform them to the same standard and subject to the same duties and restrictions as if we were performing them ourselves. These include the statutory duties referred to above. We must also monitor the performance of that function.
- Russell Investment Group Limited as investment manager of the Funds 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 built these statutory controls into our internal compliance processes and procedures. We have a Conflicts of Interest and Related Party Transactions Policy and Procedure ('Policy') which extends the statutory duties imposed on us to our staff members.

The Policy defines what a conflict of interest is and provides for reporting and disclosure of conflicts of interest to the Board, Manager and Directors. It also sets out protocols for personal securities transactions, including pre-clearance and reporting.

## **Explanation of Key terms**

### **Making an application**

The application process is described in the PDS.

### **Issue price**

If we accept your application, you will be issued Units in a Fund at the Issue Price. The Issue Price is the Net Asset Value per Unit in the Fund, plus an amount calculated to reflect the cost of acquiring investments following the issue of Units ('buy spread') and an initial service fee (if any). We have no current intention to charge an initial service fee. The current buy spreads for each Fund are contained in the PDS.

The Issue Price of a Unit is generally determined on each Business Day ('Valuation Time'). Some of the Funds invest into underlying funds located outside New Zealand (ie, Australia). In some circumstances (eg, where there is a public holiday in the jurisdiction of the underlying fund) it may not be possible to determine the Issue Price of a Unit for the Fund because there is no valuation data available for the underlying fund. In these cases, the Issue Price may be determined on the next Business Day on which valuation data is available for the underlying fund. Alternatively, with the permission of the Supervisor, the Issue Price may be determined by applying an index movement to the previous day's price.

If an application is received and accepted before the cut-off time for a Fund on a Valuation Time, Units will be issued at the Issue Price determined as at the end of that day. If an application is received and accepted at or after the cut-off time on a Valuation Time, Units will be issued at the Issue Price determined as at the end of the following Valuation Time.

The cut-off time for the receipt of applications and cleared funds for all Funds is currently 11.00 a.m. New Zealand time.

If a payment is dishonoured or reversed, no Units will be issued in respect of that payment or any Units issued based on that payment will be cancelled.

## **Charges**

### **Buy/sell spreads**

The Issue Price includes a buy spread that provides for the cost of acquiring investments in the Fund. The Redemption Price includes a sell spread that provides for the cost of realising investments in the Fund. A list of the current buy/sell spreads is contained in the PDS.

We review the buy/sell spreads from time to time.

### **Management fee**

Each Fund pays an annual management fee based on that Fund's Net Asset Value as outlined in the PDS.

Management fees are calculated daily and paid monthly in arrears. We may waive or decrease a management fee without notice. We may increase a management fee by giving you at least three months' notice. No management fee may be increased above 2.00% p.a. of Gross Asset Value.



The management fees include any investment management fees deducted within an underlying fund or paid to an underlying investment manager but do not include any other fees and charges deducted within an underlying fund. Where investment management fees are deducted from an underlying fund or paid to an underlying investment manager, we adjust our fee to ensure that you are not double charged for investment management services. You do not pay, directly or indirectly, any additional amount for the investment management services provided by entities associated with the Investment Manager in respect of the underlying funds.

### **Manager's termination fees**

If a Fund terminates, we may charge the Fund a fee (based on time spent by us) and recover costs and disbursements from the Fund for matters relating to termination. The fee, costs and disbursements must be approved by the Supervisor as reasonable. You may ask us how much that fee was following termination.

If Investors of a Fund remove us as Manager by Extraordinary Resolution (other than for breach of trust or negligence), we may charge that Fund a termination fee, being the greater of:

- \$150,000; and
- Four times the per annum percentage management fee for the Fund multiplied by the Gross Asset Value of the Fund on the last Valuation Time before we cease to hold office.

With the approval of the Supervisor, a third party may pay an amount to us equivalent to the termination fee, instead of the termination fee being paid from the Fund.

### **Supervisor's fee, Administration Manager's fee and certain other costs**

Each Fund pays the Supervisor for independent supervisory and custody services. Each Fund also pays the Administration Manager for unit pricing, fund accounting and registry services. Each Fund also incurs the cost of obtaining professional services such as legal fees and audit costs.

### **Other charges**

Each Fund will incur other expenses, including brokerage and taxation charges and there are indirect costs within the underlying funds. These brokerage, taxation, indirect costs and other expenses do not form part of the in-fund costs outlined above. Some of these expenses may be paid to us or the Administration Manager. There is no limit on these expenses, which (except for the costs charged within the underlying funds) will be shown in each Fund's financial statements. Note that the costs of marketing the Funds will be borne by us.

### **Supervisor's other fees**

The Supervisor may also charge special fees to a Fund for services of an unusual or onerous nature outside the Supervisor's regular services (eg, on termination).

### **Initial service fee**

While we have no current intention to do so, we may charge an initial service fee determined by us on the issue of any Unit. Any initial service fee, if it were to be charged, would be in addition to any buy spread.

### **Variation to fees**

We may, in our absolute discretion, rebate the buy and sell spread and/or management fee, by agreement, with an Investor, or a group of Investors.

## Distributions

At the date of this document, we intend to make six monthly distributions from the following Funds:

- Russell Investments NZ Fixed Interest Fund
- Russell Investments Global Fixed Interest Fund
- Russell Investments NZ Shares Fund
- Russell Investments Global Shares Fund
- Russell Investments Hedged Global Shares Fund

We expect to make distributions in respect of the periods ('Distribution Periods') ending on the last Valuation Times in March and September. However, the Distribution Periods may be varied in accordance with the Distribution Policy agreed by us and the Supervisor from time to time.

If all Investors in a fund elect for their distribution to be reinvested no distribution will be made for that fund.

The amount available for distribution, if any, will be determined in accordance with the Distribution Policy. Distributions will be expressed in cents per Unit and will therefore be calculated by dividing the distribution amount by the number of Units on issue for the relevant Fund on the last day of a Distribution Period.

Investors recorded on the Register on the last day of a Distribution Period will receive their pro-rata share of the distribution amount. The amount payable to each Investor is calculated by multiplying their number of Units by the cents per Unit distribution amount. We expect distribution payments to be made within 10 Business Days of the last day of a Distribution Period.

You can elect to have your distributions paid to a nominated bank account or reinvested in the relevant Fund. In the event that you have not made a distribution election the default option is reinvestment. Additional Units will be issued for amounts reinvested. Distributions reinvested do not incur the buy spread.

Note that immediately following a distribution, the Unit price of a distributing fund will be reduced by the cents per Unit distribution amount.

We can vary the Distribution Policy for a Fund with the agreement of the Supervisor. You will receive three months' notice of any change to the Distribution Policy for a Fund.

## Amendments to the Trust Deed or Unit Trust Establishment Deeds

We can agree with the Supervisor to change the Trust Deed or the Establishment Deeds in certain circumstances, without consulting you. This ability is, however, subject to certain protections (for your benefit) as set out in the Trust Deed.

## Altering your investment

We may alter or introduce minimum application amounts, holding amounts, transfer amounts and redemption amounts for any Fund at any time. We may allow applications, holdings, transfers and redemptions for less than those minimums at our discretion.

We may decrease or waive the management fee for any Fund at any time without notice. We may increase the management fee for any Fund to the 2.00% p.a. limit, but only after giving three months' notice to Investors.

We can change the SIPO. Before making changes to the SIPO, we will consider if the changes are in your best interests and consult with the Supervisor. We will give notice of changes to investors in the relevant Funds prior to effecting any material changes.

Payment of redemption requests may be suspended or deferred. Details of when this may occur are under the heading "*Redemption of units*" in the section on page 11.

We may resolve to wind up a Fund. In that case, all assets of the Fund will be realised and the Fund wound up (as explained under the heading "**Insolvency or winding up**" in the section on page 17).

If your holding in a Fund falls below the minimum holding amount fixed by us from time to time or if we determine that an adjustment for PIE tax would reduce your holding to below that minimum holding amount, we may redeem your entire holding and pay the net proceeds into your nominated bank account. We will give you at least one month's notice of our intention to do this.

The current minimum holding amount in a Fund fixed by us is 500 units.

We may take all steps necessary to ensure each Fund remains eligible to be a PIE. This includes our ability to compulsorily redeem some or all of your Units and pay the net proceeds to your nominated bank account.

## **Redemption of units**

### **Minimum redemption amounts**

If a Redemption Request would cause your holding in a Fund to fall below the minimum holding amount (as determined by us from time to time) we may treat the Redemption Request as a request to redeem all your Units in that Fund.

If your holding falls below the minimum holding amount or to a level where an adjustment for PIE tax would leave your holding below the minimum holding amount, we may redeem all of your Units and pay the proceeds to your nominated bank account.

### **Redemption price**

The Redemption Price of a Unit is determined on each Valuation Time for the Fund. If an Investors' Redemption Request is received prior to the applicable cut-off time on a Valuation Time, the Redemption Price applicable to your Redemption Request will be the Redemption Price determined as at the end of that day. If your Redemption Request is received at or after the applicable cut-off time on a Valuation Time, the applicable Redemption Price will be the Redemption Price determined as at the end of the following Valuation Time.

### **Deferral of redemptions**

If a Redemption Request or a series of Redemption Requests in respect of a Fund are received within a period of 60 Business Days that in total comprise more than 10% of the number of Units on issue in that Fund, and we determine it is in the interests of the Fund's Investors to defer immediate redemption of the total Units requested, we will determine a basis for redemption that we consider to be in the general interests of all that Fund's Investors.

We must notify the Supervisor of our intention to defer redemptions as soon as reasonably practicable. A Redemption Request may not be deferred for a period exceeding six months after its receipt (or such other date as is approved by Special Resolution of Investors).

### **Suspension of redemptions**

We may suspend redemptions where we in good faith form the opinion that it is not practicable, or would be materially prejudicial to the interests of Investors of any of the Funds for the Supervisor to realise assets or borrow in order to permit redemption of Units.

If redemptions are suspended, we must give notice to all Investors who have made a Redemption Request. If the suspension is for a period of more than two weeks, we must give notice to all Investors in the relevant Fund.

The suspension will continue until:

- we give notice that the suspension is concluded; or
- the expiry of any period stated in the Establishment Deed; or
- six months after the date of the notice; or
- such longer period as may be approved by an Special Resolution of Investors.

### **Tax on redemptions**

Where Units are redeemed, the tax liability on income allocated to you up to the redemption date will need to be satisfied either by us cancelling Units or by deduction from any distributions. Generally this will occur by cancellation of Units on redemption.

### **Right to sell units**

You may sell and transfer all or any of your Units, (either to an existing Investor or another person) by completing a Transfer Request Form, to be signed by the transferor and transferee. The transfer becomes effective when it is entered in the Register.

We may decline to register any transfer if it does not comply with the Trust Deed or the Establishment Deeds, including if:

- The transfer is in respect of less than the minimum transfer amount as determined by us from time to time.
- Registration of the transfer would result in the transferor or the transferee holding less than the minimum holding amount for the Fund as determined by us from time to time.
- The transfer would result in the Fund losing its PIE status.

No transfer of any Units can be registered unless any sums owed in respect of those Units (including any applicable PIE tax, or other duties or any commissions, fees and charges in respect of the transfer of the Units) have been paid.

### **Termination of the Funds**

Each Fund will terminate on the first of the following:

- the date of termination (if any) notified in writing by us and the Supervisor to each Investor of the Fund which will be at least three months after the date of the notice;
- 80 years less two days from the date of the Establishment Deed for the relevant Fund; or
- the date on which an Special Resolution is passed by Investors of the Fund resolving to terminate the Fund.

### **Fund-specific information**

#### ***Russell Investments Global Shares Fund, Russell Investments Hedged Global Shares Fund and Russell Investments Global Fixed Interest Fund***

The Russell Investments Global Shares Fund, Russell Investments Hedged Global Shares Fund and Russell Investments Global Fixed Interest Fund currently invest in Australian Unit Trusts. Key consequences of this arrangement are that the funds:

- a. Indirectly incur costs deducted within the Australian Unit Trust, and
- b. Cannot recognise withholding tax on income received by the Australian Unit Trusts (see Taxation section on page 14).

The underlying Australian Unit Trust used by the Russell Investments Global Fixed Interest Fund has a maximum exposure to non-investment grade securities of 30%.

The Russell Investments Hedged Global Shares Fund and Russell Investments Global Fixed Interest Fund target being fully hedged to New Zealand dollars which aims to minimise the effect of currency fluctuations. Some foreign currency exposures are likely to remain unhedged, due to active currency positions taken by underlying managers, which may affect the investment values of these Funds.

***Russell Investments NZ Shares Fund***

The Russell Investments NZ Shares Fund invests predominantly in shares from New Zealand. Therefore investors are exposed to the risks associated with only having predominant exposure to this economy, market and currency.

The Russell Investments NZ Shares Fund has elected to be a Foreign Investment PIE. The consequences of this election are explained in the Taxation section starting on page 14.

***Russell Investments NZ Fixed Interest Fund***

The Russell Investments NZ Fixed Interest Fund invests primarily in fixed interest securities denominated in New Zealand dollars but can also have exposure to the Australian fixed income market. Therefore investors are exposed to the risks associated with having exposure to a limited number of economies, markets and currencies.

The Russell Investments NZ Fixed Interest Fund has elected to be a Foreign Investment PIE. The consequences of this election are explained in the Taxation section starting on page 14.

**Investment information**

Russell Investments, in their capacity as Investment Manager, is responsible for making recommendations and decisions about what the Scheme invests in, in accordance with the SIPO. Underlying funds, sub-investment managers and strategies may change without notice. Details of the current underlying specialist managers can be obtained from us.

At the date of this Document the underlying specialist managers were:

<i>Fund</i>	<i>Underlying specialist manager</i>
Russell Investments Global Shares Fund	Fiera Capital J O Hambro Capital Management Nissay Asset Management Numeric Investors Oaktree Capital Russell Investments RWC Partners Sanders Capital, LLC Wellington Management Company LLP
Russell Investments Hedged Global Shares Fund	Fiera Capital J O Hambro Capital Management Nissay Asset Management Numeric Investors Oaktree Capital Russell Investments RWC Partners Sanders Capital, LLC Wellington Management Company LLP

Russell Investments NZ Shares Fund	Harbour Asset Management Limited Investment Services Group (Devon) Russell Investments or a Related Party
Russell Investments NZ Fixed Interest Fund	Harbour Asset Management Limited Western Asset Management Company, LLC
Russell Investments Global Fixed Interest Fund	Bluebay LLP Colchester Global Investors Insight Investment Russell Investments Schroders Investment Management Voya Investment Management

## Taxation

This section briefly summarises the taxation regime as it applies to the Funds. It is intended as a general guide only. All Investors have different taxation positions and should seek their own tax advice prior to investing.

### Portfolio Investment Entities

The Funds are PIEs.

Capital gains derived by PIEs in relation to New Zealand and most listed Australian companies are not subject to tax. Investments in certain offshore equities are taxed under the Fair Dividend Rate method, with a deemed annual return of 5% of the market value, prorated over the days that the particular equity is held during the year.

Under the PIE regime, a Fund will allocate its taxable income to Investors and, where applicable, pay tax on allocated income on behalf of Investors for an Investor with a prescribed investor rate ("PIR") of greater than zero. A Fund will undertake any necessary adjustments to an Investor's interests in the Fund to reflect that the Fund pays tax at varying rates on behalf of Investors.

### Individuals

The PIRs for individual Investors in the Funds who are New Zealand tax resident are 10.5%, 17.5% and 28%.

Individual Investors will be eligible for a 10.5% PIR if their taxable income in either of the two immediately prior tax years<sup>1</sup> did not exceed both:

- \$14,000 (excluding PIE income); and
- \$48,000 (including PIE income).

Individual Investors who do not qualify for the 10.5% rate are eligible for the 17.5% PIR if their taxable income in either of the two immediately prior tax years<sup>§</sup> did not exceed both:

- \$48,000 (excluding PIE income); and
- \$70,000 (including PIE income).

If an individual Investor does not qualify for either the 10.5% PIR or the 17.5% PIR (or does not provide IIS with a valid IRD number and notify their PIR), their PIR will be 28%. The maximum tax rate for an individual Investor in a Fund is 28%.

If an individual Investor has provided the Investor's correct PIR, the Investor will not be required to include the allocated taxable income in the Investor's tax return. If an Investor has provided a PIR that is lower than the Investor's correct PIR, the Investor may have to include

<sup>1</sup> Tax years generally commence on 1 April in any year and end on 31 March in the following year.

the allocated taxable income in the Investor's tax return. If an Investor has provided a PIR that is higher than the Investor's correct PIR, the Investor will not be able to receive a refund of the overpayment of tax.

### Non-individuals

Non-individual Investors who are companies or charities who provide IIS with a valid IRD number and who notify their Manager of their PIR will have a PIR of 0%. If they do not provide a valid IRD number or notify their PIR, the default PIR of 28% will apply. Non-individual Investors must account for tax on their allocated income from a Fund in their own tax return.

Non-individual Investors who are trusts will have a PIR of 0% unless their trustees elect to apply a 10.5%, 17.5% or 28% PIR or they do not provide a valid IRD number or notify IIS of their PIR. If a 0% PIR applies to a trust, then that trust must account for its allocated income from a Fund within its own tax return (at the appropriate tax rate). If a trust elects a 10.5% or 17.5% PIR, the trust includes the allocated income from a Fund within its own tax return (at the appropriate tax rate) and claims a credit for the tax already paid by the Fund. If a trust elects a 28% PIR to be applied against its allocated income from the relevant Fund, IIS will pay tax at the 28% rate and that will be a final tax. A 10.5% PIR is only available to Testamentary Trusts.

### Foreign residents

If an Investor is not a New Zealand resident, the Investor's allocated income from a Fund will be taxed at 28%. IIS will account to the IRD directly for tax on a non-resident Investor's allocated income from the relevant Fund.

However, IIS has elected for:

- the Russell Investments NZ Fixed Interest Fund and
- the Russell Investments NZ Shares Fund

to be Foreign Investment PIEs. For these funds lower PIRs will apply to eligible foreign residents who have sufficiently completed and provided to us a notified foreign investor form (available on request). The lower rates are as follows:

All non-New Zealand sourced income, fully imputed dividends, income from New Zealand based financial arrangements excluding interest covered below	0%
New Zealand interest income	1.44%
New Zealand dividend income, to the extent it is un-imputed, is taxed based on whether the investor is resident in a country with which New Zealand hold a double tax agreement ("DTA") that reduces the dividend withholding tax rate below the standard 30%.	15% (non-standard); 30% (standard)
Other New Zealand sourced income (if any)	28%

### Withholding tax – Global Funds

The Russell Investments Global Fixed Interest Fund, the Russell Investments Global Shares Fund and the Russell Investments Hedged Global Shares Fund currently invest through Australian Unit Trusts. The Australian Unit Trusts may have foreign withholding tax deducted from income that they receive. However, withholding tax on income received by the Australian Unit Trusts is not recognised under New Zealand tax law and therefore cannot be utilised against any PIE tax liability related to investments in the Funds.

### General

Investors must advise IIS of their PIR and IRD number when applying to invest in a Fund and if their PIR changes at any time. If an Investor does not provide their PIR to IIS they will

automatically be taxed at the maximum default rate of 28%. If an Investor provides an incorrect PIR they may be liable for any additional income tax.

The Commissioner of Inland Revenue can require IIS to disregard a PIR notified by an Investor if the Commissioner considers the rate to be incorrect. The rate specified by the Commissioner would then apply to that Investor's attributed income.

Taxable income is attributed annually to 31 March, or at any time an Investor withdraws all or part of their investment from the Fund.

If there is a tax loss or there are excess tax credits allocated to an Investor for a period, these will generally be available to Investors with a PIR other than 0% in the form of a rebate. The relevant Fund will either re-invest this rebate by purchasing Units in the Fund on an Investor's behalf in respect of annual attributions as at 31 March or include it in the net proceeds payable to that Investor or applied on their behalf as a result of a full withdrawal. For non-individual Investors with a 0% PIR, the tax loss or excess credits may be available for offset in that Investor's tax return against other income, with any excess available to carry forward.

Investors will not pay tax on distributions (if any) paid to Investors from a Fund.

There may be changes to the taxation legislation and tax rates in the future which may impact each Investor differently. Investors should always seek independent professional taxation advice for their individual circumstances.

Neither the Supervisor, Manager nor any other person guarantees or provides undertakings in relation to the return of capital invested in any of the Funds by an Investor, the payment of any return on capital, or provision of any distribution or payment of any money in relation to any of the Funds, or the performance of the Funds.

## **Basis of estimates for fund charges in PDS**

The fund charges disclosed in the PDS are comprised of:

- Management fees charged by us or the investment managers responsible for managing the Funds' assets. The management fees disclosed in the PDS are the actual fees as at the date of the PDS. They are not estimates.
- In-fund costs and administration charges incurred by the Funds in New Zealand. These include the Supervisor and custody costs, the costs associated with fund administration, accounting, unit pricing the registry, as well as the cost of audit and other professional charges associated with operating the Funds.
- The costs within any offshore funds that the Russell Investments Global Fixed Interest Fund, Russell Investments Global Shares Fund, and Russell Investments Hedged Global Shares Fund invest in. These offshore fund costs are provided to us by Russell Investments. For the purpose of estimating these offshore fund costs in the PDS, we have assumed the future level of offshore fund costs will be similar to those charged historically.
- The Funds invest in diversified portfolios of assets. These portfolios may include funds that are listed on a stock exchange like exchange traded funds. We are unable to reasonably estimate amounts charged by some underlying funds that are listed on a stock exchange so have omitted them from the estimated administration charges figure. We do not expect these charges to be material.

## **Other Risks**

Different investments have different types of risks. We recommend that you seek professional advice before investing in any of the Funds to understand what risks are associated with these, especially in relation to your circumstances. Risks relevant to the Funds include, but are not limited to investment risk, market risk, manager risk, currency risk, interest rate risk, concentration risk, liquidity risk, credit risk, regulatory risk, tax related risk,



operational risk, product risk, and risk of restrictions of withdrawals, transfers or switches. The following risks are supplemental to the risks disclosed in the PDS.

**NZ Fixed Interest:** The Russell Investments NZ Fixed Interest Fund invests primarily in fixed interest securities denominated in New Zealand dollars but can also have exposure to the Australian fixed income market. Therefore investors are exposed to the risks associated with having exposure to a limited number of economies, markets and currencies. Individual Investors can look to manage this risk by including other investments in their portfolio.

**NZ Shares:** The Russell Investments NZ Shares Fund invests predominantly in shares from New Zealand. Therefore investors are exposed to the risks associated with only having predominant exposure to this economy, market and currency. Individual Investors can look to manage this risk by including other investments in their portfolio.

**Country risk:** The Russell Investments Global Fixed Interest, Global Shares and Hedged Global Shares Fund each invest internationally. While this provides investors with additional diversification benefits beyond just holding New Zealand investments and assets, investing internationally brings with it a range of specific risks. Each country's market is regulated by different authorities, resulting in different levels of consumer protection. The volatility of economic and political conditions will vary from country to country, creating uncertainty and an increase in unforeseen factors.

**Inflation risk:** This is the risk that an investment will lose real value because of the rate of inflation. The risk is greater in long term investments due to the difficulty in predicting inflation rates over long periods. All of the Russell Investment Funds are exposed to this risk.

**Diversification risk:** The Russell Investment Funds invest either directly or indirectly in well diversified portfolios of securities. As the funds are actively managed the composition of the underlying portfolios will vary from the composition of the relevant Fund benchmark. This will result in Fund returns being both above and below relevant benchmark returns.

**Administration risk:** There will also always be the risk of a technological or other failure or event impacting on the Funds or the financial markets in general that may affect returns. Also, although the Manager has mechanisms available to manage compliance with the PIE eligibility requirements, there is a risk that a Fund could lose its PIE status if there is a breach of those requirements and the Manager does not become aware of the breach in time to correct it.

### How risks can affect an investment

The actual or perceived existence of risk may manifest itself in uncertainty, which in turn increases volatility of investment returns. When the collective sentiment of the market is positive, prices rise; when it is negative, prices fall. If specific risks eventuate (i.e. the collapse of a company or a borrower defaulting on a debenture) a total loss of capital may occur. Each investment will be affected by a different combination of risks.

Because of these risks, it is foreseeable that an Investor may receive back less than the capital invested by the Investor into the Funds. However, the Investor will not be required to pay more money than the amount the Investor invested in the Funds (with the exception of any PIE tax liability that may be incurred).

No person, including the Supervisor or the Manager or their respective directors and shareholders guarantees the performance of the Funds, any particular rate of return, or the return of an Investor's capital. An Investor's investment is not secured against any assets.

### Insolvency or winding up

You will not be liable to pay money to any person as a result of the insolvency or winding up of a Fund (except as described below).

You will be liable to meet any tax liability attributable to you which exceeds the value of your investment in a Fund (in which case you indemnify the Supervisor for the difference between the value of the Units and the tax liability). A custodian that holds legal title to Units on behalf of underlying investors and elects to be a proxy for PIE investors will, under the terms of the application form, indemnify us and the Supervisor for any losses, liabilities, costs or expenses arising from any breach (in relation to underlying investors that such custodian is responsible for) of the investor interest size requirements under section HM 15 or the investor membership requirements under section HM 14 of the Income Tax Act 2007, including the losses, liabilities, costs or expenses arising from the Fund losing PIE status.

On insolvency or winding up of a Fund, the assets of the Fund are first applied to meet the claims of any creditors of the Fund (whether preferred, secured or unsecured), which includes the Supervisor's and Manager's claims for fees and expenses. Following this, the remainder of the assets of the Fund will be distributed to Investors in proportion to the number of Units held.

At the date of this document there are no other claims on the assets of the Scheme that rank ahead of or equally with the claims of Investors. In certain circumstances, you may receive assets other than cash (e.g. securities in another investment held by a Fund) as part of a wind up.

## More information about market indices

### Where to find more information

The Funds' returns are measured against various market indices as set out in the SIPO. More information about these market indices can be found at the following web pages:

- S&P/NZX Indices: <http://us.spindices.com/regional-exposure/asia-pacific/new-zealand>
- Bloomberg Indices: <https://www.bloomberg.com/professional/product/indices/>
- MSCI Indices : <http://www.msci.com/indexes>

### Disclaimers

Our use of some market indices is subject to terms and conditions of licence agreements entered into with the index provider. These require us to provide the following disclaimer in relation to our use of those market indices:

*The S&P/NZX 50 Index (Index) is a product of S&P Dow Jones Indices LLC and/or its affiliates and have been licensed for use by Implemented Investment Solutions Limited. Copyright © 2016 S&P Dow Jones Indices LLC, a subsidiary of McGraw Hill Financial Inc., and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. For more information on any of S&P Dow Jones Indices please visit [www.spdji.com](http://www.spdji.com). S&P® is a registered trademark of Standard & Poor's Financial Services LLC and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC. Neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors make any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors shall have any liability for any errors, omissions, or interruptions of any index or the data included therein.*

## No guarantee

Neither the Supervisor, Manager nor any other person guarantees or provides undertakings in relation to the return of capital invested in any of the Funds by an Investor, the payment of any return on capital, or provision of any distribution or payment of any money in relation to any of the Funds, or the performance of the Funds.

## Glossary

“Custodian” means Public Trust RIF Nominees Limited.

“FMA” means the Financial Markets Authority.

“FMC Act” means the Financial Markets Conduct Act 2013.

“FMC Regulations” means the Financial Markets Conduct Regulations 2014.

“Funds” means the Russell Investment Funds.

“Investment Manager” means Russell Investment Group Limited.

“PDS” means the Product Disclosure Statement for the Russell Investment Funds.

“PIE” means Portfolio Investment Entity.

“PIR” means prescribed investor rate.

“Russell” means Russell Investment Group Limited.

“Scheme” means the Russell Investment Funds, registered scheme number SCH10586.

“SIPO” means the Statement of Investment Policies and Objectives for the Russell Investment Funds.

“Supervisor” means Public Trust.

“Trust Deed” means the trust deed that governs the Funds (as amended and consolidated from time to time).

“We”, “us”, “our” or “IIS” refers to Implemented Investment Solutions Limited as the manager of the Russell Investment Funds.

Words or phrases not defined in this Glossary have the same meaning as in the Trust Deed.