



**Other Material Information**

# **Simplicity Investment Funds**

3 November 2021

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## 1. 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”). 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” means an investor in the Funds. “We”, “us”, “our” or “the Manager” refers to Simplicity NZ Limited as the manager of the Simplicity Investment Funds, and the funds set out in section 2, “Funds” below.

A Product Disclosure Statement (“PDS”) and Statement of Investment Policy and Objectives (“SIPO”) for the offer of Units in the Funds are also available. You must be given a copy of the relevant PDS before we can accept your application to invest in the Funds.

## 2. Funds

You can choose to invest in any of the following investment funds (“Funds”):

Fund	Product Disclosure Statement
Simplicity Growth Investment Fund	Simplicity Investment Funds PDS
Simplicity Balanced Investment Fund	Simplicity Investment Funds PDS
Simplicity Conservative Investment Fund	Simplicity Investment Funds PDS
Simplicity NZ Share Fund	Simplicity Investment Funds PDS
Simplicity NZ Bond Fund	Simplicity Investment Funds PDS

The Funds are investment options under a registered scheme called the “Simplicity Investment Funds”. You will be allocated Units in the Fund you select. The Funds are governed by the Trust Deed dated 3 March 2017, and the Funds are invested in accordance with their SIPO. You can get an electronic copy of the Trust Deed and SIPO from the Disclose website [www.companiesoffice.govt.nz/disclose](http://www.companiesoffice.govt.nz/disclose) (Disclose).

The value of Units held by you is reflected in the current Unit price. This is calculated on each business day by valuing each Fund’s investments in accordance with the Trust Deed, and dividing that value by the number of Units on issue. See ‘Valuation’ on page 9.

## 3. Manager

The manager of the Funds is Simplicity NZ Limited (“Manager”, “we”, “us”, “our”). We are owned by the Simplicity Charitable Trust a registered charity whose objective is to benefit the people of New Zealand through charitable donations.

We were incorporated in New Zealand under the Companies Act 1993 on 27 May 2015 (Company number 5708207). We are a registered financial service provider (FSP number 465606).

We hold a licence to act as manager of a registered scheme under the FMC Act. A copy of the licence, and its conditions, is available on the FMA's website at [fma.govt.nz/compliance/lists-and-registers/licensed-managed-investment-scheme-managers/](http://fma.govt.nz/compliance/lists-and-registers/licensed-managed-investment-scheme-managers/).

## Our functions

As the manager of the Funds, we:

- offer and issue Units
- manage the Funds and their investments; and
- are responsible for administering the Funds.

## Our directors

Our directors and their biographies follow. Our directors and their details may change from time to time, without notice.

### Joy Marslin

Joy has had an extensive career in wealth and private banking and is passionate about finding new and innovative solutions that balance profit with impact. In addition to her role with Simplicity, Joy has a basket of roles including Consultant, Head of Investor Relations with New Ground Capital, Board of Trustees Chair for the Auckland Foundation and independent director for Strategi Group. Joy's previous roles include Head of Private Wealth Management for Westpac and Head of Wealth for ANZ New Zealand.

### Reuben Halper

Reuben is responsible for Google's business with New Zealand advertising agencies. Before relocating to New Zealand in late 2015 he spent the previous 6 years with Google UK, first as part of the Zoo, Google's internal creative think tank, then subsequently leading the global Unilever team responsible for working across Unilever's biggest brands.

Reuben has worn many hats in his career including strategist, Emmy-award winning TV producer, creative and production team leader as well as product manager. Across roles and industries his work has been recognised both internally and externally, including a D&AD award for creative work, Emmy awards for work in TV and digital as well as recognition in the form of a patent for breakthrough broadcast technology.

### Anna Tierney

A Chartered Accountant for twenty years in both the public and private sectors. She has a strong history in specialising in the areas of Fraud and Risk through her experience as a forensic accountant at the Serious Fraud Office and Ernst & Young.

Anna has also held an appointment with the Real Estate Agents Authority (REAA) as an original Member of the Complaints Assessment Committee, and has worked in London for Schroders and Morgan Stanley.

### Chris Teeling

Chris has deep experience and a passion for scaling businesses. He has had an extensive career in technology centered businesses and with international investment banking. His broad background brings a unique perspective and ability to turn complex challenges into well governed and executed plans for boards, leaders and founders.

Over the last 10 years Chris has helped build and lead two globally successful companies; GreenButton, a cloud based technology company acquired by Microsoft Corporation and Xero Limited.

## **Mel Hewitson**

A professional director, Mel is a board member of Fidelity Life Assurance, Ngāti Whātua Ōrākei Whai Maia, Trust Investments, Domain Name Commission, Foundation North and Auckland Foundation. She also Chairs the Nominating Committees for the Guardians of New Zealand Super Fund and Waikato- Tainui Group Investment Committee.

Mel brings relevant skills and alignment with Simplicity's commitment to investors' interests, developed from her former leadership roles at the Financial Markets Authority and investment management firms with strong fiduciary cultures.

She is a Chartered Member of the Institute of Directors, an Accredited Investment Fiduciary and has degrees in Business (Masters), Economics and Japanese.

## **Sam Stubbs (Managing Director)**

Sam was previously Chief Executive Officer of Tower Investments, a default KiwiSaver provider. Sam's previous roles include Chief Executive Officer of Hanover Group and Executive Director of Goldman Sachs in both its London and Hong Kong offices.

The directors may change from time to time without notice to you.

## **Our Senior Managers**

As Managing Director, Sam acts as a senior manager. Our Chief Operating Officer, Andrew Lance, is a senior manager. He has spent many years working in financial markets in a variety of management roles for institutions such as Tower Investments, Fisher Funds and AMP. Matthew Houtman, our Head of Private Capital, is also a Senior Manager. He has a background in investment banking both here and in London. His previous role was as a principal of Pioneer Capital Management.

## **Investment Manager**

We contract out the investment management of the Funds' overseas assets to Vanguard Asset Management Limited ("Vanguard"). For more details, see [vanguard.investments.com.au](http://vanguard.investments.com.au) New Zealand investments are primarily made by the Manager.

The Growth Fund has a limited (maximum 5%) investment in Icehouse Ventures Limited, funds managed by Icehouse Ventures Limited and other private equity investments. Icehouse Ventures Limited is the investment arm of The Icehouse, which was established in 2001 to assist small to medium enterprises grow their businesses.

To see the range of permitted investments, please refer to the SIPO on [www.simplicityfunds.kiwi](http://www.simplicityfunds.kiwi), or on Disclose.

Hedging of offshore investments to manage foreign exchange risks will be performed by Vanguard and by trading banks. Hedging services are provided through foreign exchange forward contracts. No gearing or leverage (buying assets with borrowed funds anticipating that borrowing costs will be less than profits) of the Funds and investment objectives is permitted through hedging instruments.

We are able to change investment managers at any time, without notice to you.

## **Administration Manager**

Under the Management Agreement, we have contracted administration management of the Funds to MMC Limited ("Administration Manager"). The Administration Manager provides the following services;

- Member record keeping and registry
- Unit pricing
- Fund accounting

- Verification of identity
- Valuation services

See [mmcnz.co.nz](http://mmcnz.co.nz) for more details.

## 4. Supervisor and Custodian

Public Trust 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 of the Units, any contravention or alleged contravention of our obligations as the issuer of the Units and any manager of the Funds, and any contravention or alleged contravention of the FMC Act by any other person in connection with the Funds;
- supervising the performance of our functions as Manager of the Funds and our obligations as issuer of the Units (including compliance with the Trust Deed), and the financial position of us and the Funds in respect of the Units to ascertain that it is adequate;
- holding the property of the Funds, or ensuring that property is held, in accordance with the FMC Act; and
- 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.

### Custody

Custody of all investments, both domestic and overseas, is provided by Public Trust through its nominee, Simplicity Nominees Limited. No Fund assets can be held by us.

### Supervisor’s directors

The current Directors of Public Trust can be viewed at [www.publictrust.co.nz/about-us/our-team/public-trust-board](http://www.publictrust.co.nz/about-us/our-team/public-trust-board)

The directors of the Supervisor and their addresses may change from time to time without notice to you. You can contact the directors of the Supervisor at Level 9, 34 Shortland Street, PO Box 1598, Shortland Street, Auckland 1140. or on 0800 371 471.

### 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 of managed investment schemes.

A copy of the Supervisor’s licence, including the conditions of the licence, can be obtained on the FMA’s website at [www.fma.govt.nz/compliance/lists-and-registers/](http://www.fma.govt.nz/compliance/lists-and-registers/). All conditions and reporting obligations have been duly satisfied by the required dates. If you have any queries about the licence please contact the Supervisor in the first instance.

## 5. Manager and Supervisor's indemnity

Subject to the limits on indemnities under the FMC Act, both the Supervisor and we are indemnified out of the Funds for all losses, costs and expenses incurred by us 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 and this offer. We and the Supervisor remain liable for losses, costs and expenses arising from a breach of trust where we or the Supervisor fail to show the degree of care and diligence required unless the holders of Units in all the Funds governed by the Trust Deed pass a special resolution releasing us or the Supervisor from such liability (as applicable).

## 6. Auditors and Other Advisers

### Auditor

As at the date of this Document, Grant Thornton is the Auditor of the Funds. Grant Thornton is a registered audit provider under section 87 of the Auditor Regulation Act 2011.

### Other Advisers

Our solicitors are DLA Piper New Zealand.

## 7. Key Terms

The Trust Deed (also called a governing document) governs the Funds. The Trust Deed is available on [www.simplicityfunds.kiwi](http://www.simplicityfunds.kiwi).

### Changing the Trust Deed and SIPO

We are able to make changes to the Trust Deed and the SIPO in accordance with relevant law and the Trust Deed. We cannot change the Trust Deed where to do so would have a material adverse effect on investors. Where required by relevant law or by the Trust Deed, we will notify you of material changes to either document.

### Supervisor's Covenants

In the Trust Deed, the Supervisor gives certain covenants in favour of Investors, including that it will:

- act on behalf of investors in relation to the Manager, our obligations under the FMC Act and the Trust Deed and breach of the FMC Act;
- supervise the management of the Funds and the financial position of the Manager; and
- perform its powers and duties imposed on it by relevant law.

Neither us, nor the Supervisor (or any person) guarantees your investment in the Funds.

## Removal and Retirement of the Supervisor

The Supervisor may retire at any time by giving us 90 days' notice subject to the appointment of a new Supervisor and the transfer to the new Supervisor of the Assets of the Funds. Where the Supervisor retires, we have the power to appoint a new Supervisor. If we fail to do so, the Investors of the relevant Fund or Funds may do so by special resolution. Any Supervisor must be licensed under the Financial Markets Supervisors Act 2011.

## Our Powers and Obligations

In addition to the statutory functions (see "Our functions", above), we have broad discretions in respect of the management of the Funds, including managing the Assets of the Funds, making investment decisions, repurchasing or causing the redemption of Units and fixing dates for valuations and distributions.

We are obliged to ensure that the Funds are properly and efficiently operated, that the Assets of the Funds are properly managed and supervised, make any requested information available to the Supervisor, convene investor meetings and pay money in accordance with the Trust Deed and the FMC Act.

The Manager may (with the prior approval of the Supervisor) delegate all or any of the powers, authorities and discretions it can exercise under the Trust Deed. However, this ability to delegate does not affect the Manager's liability for the performance of those functions.

In managing the Funds, we:

- must act honestly, and in the best interests of investors;
- cannot use information acquired as Manager for improper advantage, or to cause detriment to members;
- must act as would a prudent manager of similar funds; and
- carry out our functions in accordance with the Trust Deed and FMC Act obligations.

## Powers relating to the PIE status of the Funds

The Funds are a portfolio investment entity ("PIE").

We have a wide range of discretions to operate each Fund as a PIE including:

- discretions relating to the calculation of tax;
- adjusting distributions to you or redeeming your Units to meet your liability for tax; and
- taking all steps necessary to ensure that the Fund meets the PIE eligibility requirements, including:
  - > rejecting applications for Units and transfers of Units if and to the extent necessary to ensure that the Maximum Investor Interests requirement under the Tax Act is not exceeded; or
  - > if your Unit holding exceeds the Maximum Investor Interests requirement, selling, redeeming or repurchasing Units.



We will let you know about a breach of any Maximum Investor Interests requirement and give you a reasonable opportunity to remedy that breach (provided there is time to remedy the breach under the relevant tax legislation). The proceeds from any sale, redemption or repurchase carried out by us to remedy such a breach (less any costs and expenses incurred by us in respect of the same) will be paid to you, and neither the Manager nor the Supervisor will be liable for any loss that you may incur under or in connection with any such sale, redemption or repurchase.

## Provision of information

We may ask you to provide information to enable us to determine whether a Fund continues to meet the PIE eligibility requirements. We will ask you to get that information to us promptly.

## Separate Funds

Each Fund is a separate and distinct investment fund, with separate assets and liabilities, under the Trust Deed. All investments of a Fund are to be held by the Supervisor as the exclusive property of that Fund, for the exclusive benefit of the investors of that Fund. No investor in one Fund will have any claim on any other Fund (and vice versa). This means that the assets of one Fund cannot be used to cover the liabilities of another Fund.

## Borrowing

Under the Trust Deed, borrowing up to 20% of the value of the Fund is permitted. However, it is not currently expected that any borrowing will occur.

## Valuation

The Current Value of each Fund is calculated by us by taking the value of the assets of the particular Fund and deducting any liabilities, charges incurred in holding the assets, any money held in respect of applications not yet accepted (or those which have been rejected) and any money held in respect of cancelled Units.

The Current Value of each Fund is calculated on each business day. In determining the value of the assets of a Fund, we will rely on the current unit price of any other investment fund into which that Fund invests (as quoted, published or otherwise determined by it (in the case of a Fund) or by the manager of any such other investment fund) as the value of the Fund's investment in that other investment fund.

We may value a Fund's assets more than once on any business day if special circumstances exist. In such cases, we are required to certify to the Supervisor that, in our reasonable opinion, special circumstances existed which require or justify more than one valuation of the assets on the relevant business day.

We will ascertain the Current Value of the Fund and the value of the assets of each Fund on a consistently applied basis accepted as being appropriate by the Supervisor. We can alter that basis and the application, provided the Supervisor approves.

## Suspension of Withdrawals

We may, in certain circumstances, suspend the obligation to redeem Units by issuing a withdrawal suspension notice (for instance, where we believe, in good faith, that it is not practicable or would be prejudicial to investors' interests for the Supervisor to realise assets or borrow to permit redemptions – this could be because of market or asset conditions or other circumstances). Any such suspension would continue until cancelled earlier by us.

We must cancel a withdrawal suspension notice within 90 days after the date on which the withdrawal suspension notice was given, unless the Supervisor agrees otherwise. The Supervisor must not unreasonably withhold its agreement to extend a withdrawal suspension notice beyond 90 days if we give good reasons to do so.

## Records and Financial Statements

We must keep proper accounting records in respect of the Funds. The Supervisor will provide us with any information held by them that we require in order to keep those records. Once prepared, we will forward the audited financial statements to the Supervisor and make them available to every investor within the required timeframe.

## Registers

We are required to keep a register of investors for each Fund in the form and manner required by the FMC Act (the "Register"). The Register must be kept in New Zealand, and may be kept in electronic form so long as a printout of the Register is available to the Supervisor from time to time. Each Register shall be available for inspection in accordance with the FMC Act. We are required to have the Register audited annually.

## Meetings

We may (and will on receipt of a written request from the Supervisor, or a written request from investors holding at least 5% of the Units of the Fund) convene a meeting of the investors of that Fund. We must give investors 14 Business Days' notice of the meeting.

The quorum for meetings is currently investors or their proxies present or who have cast postal, email or electronic votes, and who hold Units with a combined value of no less than 10% of the value of the Fund held by those persons who are entitled to vote (unless a special resolution is to be put to the meeting).

A "special resolution" is a resolution approved by investors holding Units with a combined value of no less than 75% of the value of the Units held by those investors who are entitled to vote and who vote on the question and includes any resolution relating to a matter that is required by the FMC Act, the FMC Regulations or the Trust Deed to be done by way of special resolution.

A meeting of investors of a Fund can give directions to the Supervisor if those directions are consistent with the Trust Deed and the FMC Act and the directions are given by a Special Resolution passed at that meeting. The Supervisor is not liable for anything done, or omitted to be done, in good faith in giving effect to such a direction. The Supervisor may also, at its discretion, apply to the High Court under the FMC Act for an order in respect of any direction given.

The Supervisor will nominate a chairperson to chair each meeting.

## Amendments to the Trust Deed

Subject to the FMC Act and the provisions of the Trust Deed, we may agree with the Supervisor to amend the Trust Deed.

## Winding Up

If a Fund is wound up, the Supervisor must sell its assets and (after providing for any amount necessary to meet all claims and liabilities (including fees)), will distribute the balance to investors in proportion to their holdings of Units at the time of distribution. The amount distributed to you on winding up may be adjusted to reflect the Fund's PIE income tax liability (if any), on income attributed to investors.

## Indemnities

Each investor indemnifies the Supervisor and the Manager if the value of the investor's Units is not sufficient to meet any liability for tax payable by the Fund, the Manager or the Supervisor and that is determined by the Supervisor or the Manager to be attributable to the Investor.

## Lending Policies

Each fund has a limited exposure to loans secured by first mortgages over residential properties. Borrowers must meet the following criteria:

- eligible to make a first home withdrawal from their KiwiSaver account;
- have been a member of Simplicity KiwiSaver Scheme for at least 1 year;
- maximum loan to valuation ratio is generally 80%, but can be extended to 90% by the Manager in limited circumstances and subject to conditions;
- debt servicing must represent no more than 30% of after-tax salary (joint if applicable).

These are the basic criteria which apply in all cases. Each application for a loan is considered by our team and there may be additional terms that are applied depending on the circumstances.

A mortgage monitoring system is maintained by us that tracks all payments of interest and principal. The portfolio of loans is valued daily.

Recovery action will be taken if any loan goes into arrears. A key consideration at all times is the security of our investors' capital.

Loans will be valued at their assessed fair value. Any arrears will impact investor returns.

## 8. More information about market indices

Market indices measure the value of a specified group of market assets.

### 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 on the web pages of the following:

- FTSE Australia 300 Choice index
- Morningstar New Zealand Index
- Reserve Bank Official Cash Rate
- Bloomberg NZBond Govt 0+ Yr Index
- Bloomberg Barclays MSCI Global Aggregate SRI ex ESG Exclusions Index
- FTSE Developed World ex Australia Choice Index

## 9. Fees and expenses

### Buy/Sell Spreads

At this stage we do not charge any buy/sell spreads. Buy spreads are added to the Unit price on entry to a Fund, and sell spreads are deducted from the Unit price on exit from a Fund, as described in more detail in the relevant PDS(s). The purpose of buy/sell spreads is to make sure that any transaction costs incurred as a result of an investor entering or leaving a Fund are borne by that investor, and not other investors in that Fund. Under the Trust Deed, we determine the buy/sell spreads based on what we consider to be a fair amount payable having regard to expected transaction costs. We may change the buy/sell spreads from time to time, and will update the relevant PDS for the Fund if we do so.

### Management Fee

We are paid a management fee for acting as manager of each Fund. The current management fee is disclosed in the relevant PDS for that Fund. The Trust Deed allows us to change those management fees from time to time and without notice to you.

We may, in our discretion, charge an investor or certain classes of investors lower management fees than as currently disclosed in the PDS(s).

### Changes to fees

These fees may be varied, or new fees may be imposed, from time to time in accordance with the Trust Deed.

### Supervisor's Fee

The Supervisor is entitled to be paid, by way of remuneration for its services, a fee. The Supervisor's fee is determined on the basis of a scale agreed from time to time between us and the Supervisor.

In addition, the Supervisor is entitled to receive a fee of such amount as is from time to time

agreed between us and the Supervisor for convening and attending meetings of Investors. There is no limit on this fee. The Supervisor is also entitled to be reimbursed for various expenses in accordance with the Trust Deed.

On termination of a Fund, the Supervisor is entitled to be paid from the Fund a reasonable fee of such amount as is approved by us, based on the time spent by the Supervisor on matters relating to the termination of the Fund. There are no limits on the amount of this fee in respect of each Fund, apart from the requirements that it be reasonable in the circumstances and be approved by us.

## Expenses

We and the Supervisor are entitled to reimbursement for all reasonable costs and expenses incurred by either of us on behalf of each Fund. These include the costs of preparation of this Document and other documents in relation to the offer of the Units in the Funds, professional advisers' fees, taxes/duties and other administration costs. There is no limit on the amount of reimbursement of expenses to which the Manager and Supervisor are entitled. The payment of these expenses is included in the "fund charges" for which an estimate is provided in the PDS and that will be disclosed in the fund updates (once available) and on the register entry on the offer register for the Funds on the Disclose website at [www.companiesoffice.govt.nz/disclose/](http://www.companiesoffice.govt.nz/disclose/). As at time of publishing of this document, we intend to absorb all expenses within our administration and management fees.

## 10. Financial Statements and auditor's report

Financial statements for the Funds are available on the scheme register on the Disclose website [www.companiesoffice.govt.nz/disclose/](http://www.companiesoffice.govt.nz/disclose/).

The Funds' financial statements will be audited by a qualified auditor, currently Grant Thornton.

The auditor's report on the financial statements will accompany the financial statements uploaded to the scheme register each year.

## 11. Risks

The Funds have been established to help you save. All investment carries a degree of risk and no level of return is promised or guaranteed.

The value of your Units in the Funds will go up and down, so it is possible that you could receive less from the Funds than you invest, particularly if you invest for a short period of time and market conditions have been poor.

The PDS sets out the material risks to your investment in the Funds.

In addition, the following risks may mean that you receive less than you invest in the Funds.

### Suspension of redemptions

The Funds allow redemption of Units, subject to certain procedural requirements, including our right under the Trust Deed to delay and/or suspend redemptions. During normal operational circumstances, redemptions can be met out of cash held by the relevant Fund.

However, if the value of redemptions significantly outweighs the value of subscriptions, the Fund may not be able to meet withdrawal requests out of cash reserves and will be reliant on selling or redeeming (whichever is relevant) some of the Fund's assets to enable it to meet the repayment requests. These Fund assets may not be immediately realisable.

## Valuation risk

The Funds' Unit prices are based on the latest market information. For securities or stocks that are illiquid or trade infrequently this pricing may not fully reflect the price available to either buyers or sellers. Accordingly, there is a risk that the quoted Unit price may change when these assets are revalued by the market following a transaction.

## Operational risk

The Funds may be exposed to operational risks that result from external events or failure of internal processes, people and systems. These risks include technology risk (including business systems failure), human error or failure, fraud, non-compliance with legal and regulatory obligations, counter-party performance under outsourcing arrangements, legal risk, data integrity risk, security risk and external events (including pandemics).

## Risk of loss of PIE status

The eligibility requirements to maintain PIE status pose a risk. Although we have mechanisms available to manage compliance with the PIE eligibility requirements, there remains a risk that the Funds could lose PIE status if there is a breach of those requirements and we do not become aware of the breach in time to correct it. This risk, if manifested, may have an adverse effect on the tax position of the relevant Fund and/or you. In particular, distributions made by the Fund to you would be taxable for you (subject to exceptions for returns of subscription amounts) if the Fund lost PIE status.

## Wrong PIR risk

If you provide a PIR that is lower than the correct PIR you will be liable for any tax shortfall (and any interest and penalties) and must file a tax return. If you provide a PIR that is higher than your correct PIR, or you do not provide a PIR and so are subject to the default rate of 28%, you will not be able to claim back the excess tax paid.

## Market risk

The value of investments may rise or fall as a result of developments in economies, financial markets, and regulatory or political conditions. The performance of individual assets, securities, and issuers can impact returns.

## Liquidity risk

There is a risk that some assets of a Fund may not be able to be converted into cash, because of lack of a market in which to sell them, or if the market is disrupted.

## Interest rate risk

The market value of fixed interest securities can change because of changes in interest rates. The impact this has on a Fund will depend on the term of the fixed investment, and the interest rate relative to market rates.

## Default Risk

Each Fund has a limited exposure to loans secured by first mortgages over residential properties. While the lending criteria is conservative (see page 11), there is a risk that a borrower defaults and the full value of the loan is not recovered.

## Currency risk

As some of the assets in the funds are invested overseas, returns in New Zealand can be affected by movements between the New Zealand dollar and overseas currencies. If the New Zealand dollar goes up, the relative value of these assets goes down. If the New Zealand dollar goes down, the relative value of these assets goes up.

While we have a policy of hedging overseas investments 65% to the New Zealand dollar (NZD), on a before tax basis, there may be fluctuations in value, and the actual percentage may vary. There may also be additional requirements to pay for the cost of hedging if the NZD is more volatile than predicted.

## Property Development Risk

The Balanced Fund and the Growth Fund will have a limited exposure to residential property development to build long term rental housing. There are risks that increases in construction costs or construction delays, changes in property valuations and residential rental markets could have a negative impact on returns.

## Product Risk

Amendments made to the Scheme from time to time in accordance with the Trust Deed, including any of the funds' objectives, terms, investment policy, fees and charges, or one or more of the funds being closed or terminated could impact on your investment.

# 12. Taxation

## Taxation

We require that all investors provide us with their IRD number. You are responsible for any taxation liability you may incur as an investor in a Fund. Tax legislation and rates of tax are subject to change and any change could have an impact on the Fund's return and yours. The impact of taxation may vary depending on your individual circumstances. It is important to seek professional taxation advice before you invest or deal with your investment in any way as the taxation treatment of your investment will be specific to your circumstances and to the nature of your investment.

## PIE

The Funds have elected to be PIEs. As a PIE, each Fund's taxable income is attributed to you in proportion to the number of Units you hold in the Fund. The Fund pays tax on the income attributed to you at your selected PIR. If the tax liability on income attributed to you exceeds your investment in the relevant Fund, some or all of your Units could be redeemed and the proceeds of the redemption paid to the Inland Revenue Department. To the extent this tax liability is not paid by the Fund, you may need to pay the tax directly to the Inland Revenue Department.

## PIR

The rules relating to the taxation of investment income enable investment funds that become PIEs to calculate their tax using PIRs selected by investors, which can be 28%, 17.5% or 10.5% subject to satisfying various conditions. In order for the Funds to pay tax on your attributed income at the appropriate rate,



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you need to ensure that you have supplied the correct PIR and Inland Revenue Department number at all times.

A PIR is based on your taxable income (e.g., income from salary, wages and any additional sources of income that you would include in your income tax return) in the two years preceding the current tax year, the income attributed to you from any PIEs in which you invest, including the Funds and your tax residency.

The following PIRs apply:

**10.5%** for investors who are:

- New Zealand resident individuals who have given us their Inland Revenue Department number and who derived in either of the last two income years preceding the current tax year \$14,000 or less in taxable income (excluding PIE income) and \$48,000 or less in taxable income and PIE income combined; or
- a New Zealand resident trustee of certain testamentary trusts that elects to have a 10.5% PIR.

**17.5%** for investors who are:

- New Zealand resident individuals who do not qualify for the 10.5% PIR but who have provided their Inland Revenue Department number to us and who derived in either of the last two income years preceding the current tax year \$48,000 or less of taxable income (excluding PIE income) and \$70,000 or less in taxable income and PIE income combined; or
- a New Zealand resident trustee of a trust (except unit trusts and charitable trusts but including superannuation funds) that elects to have a 17.5% PIR.

**28%** for investors who are:

- New Zealand resident individuals who are not eligible for either the 10.5% PIR or the 17.5% and trusts (except unit trusts and charitable trusts but including superannuation funds) that elect to have a 28% PIR, and

**0%** for the following entities (if resident in New Zealand):

- charities, PIEs, companies (including deemed companies such as unit trusts), proxies, and
- superannuation funds and trusts that have not elected to have a higher PIR.

If you are eligible for and notify us of a 0% PIR, then the relevant Fund will not have any tax liability in respect of income attributed to you. You must instead include the attributed income in your own tax return and claim any attributed losses as deductions in your own tax return. You will be responsible for payment of tax on the income attributed to you. Tax credits for foreign withholding tax and other types of credits such as imputation credits are attributed to you to be credited against tax payable in your own tax returns.

If you are eligible for and notify us of a PIR which is greater than 0%, the tax paid on income attributed to you will be a final tax and you will not be required to file a tax return which includes that income, except if you:

- are a trustee that elects the 10.5% or 17.5% PIR; or
- if you have recently become a New Zealand tax resident and have chosen to disregard foreign income derived before becoming a New Zealand resident in determining your PIR; or
- have selected a PIR which is too low, or failed to advise us that your PIR has increased.

In these circumstances you will be liable to include your attributed income in a tax return and to pay tax on that income at your relevant marginal tax rate (with a credit allowed for tax paid by the



Fund on that income). You may also be liable for any penalties or interest which may apply.

If you advise a PIR that is higher than your applicable rate, 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.

If you do not notify us of your PIR, then the default rate of 28% will apply. The Commissioner of IRD can require us to disregard the PIR notified to us by you and apply a PIR notified by the Commissioner.

Each year, we will ask you to reconfirm your PIR. You should review your rate each year to ensure it is correct and notify us of any changes. For more information about PIRs and to determine your correct PIR rate please refer to the Inland Revenue Department website [www.ird.govt.nz/toii/pir/](http://www.ird.govt.nz/toii/pir/) or contact your professional tax adviser.

## Impact of PIE taxation for certain taxpayers

In some circumstances your personal marginal tax rate could be lower than your PIR. In this event investing through a PIE may not be appropriate.

Investing in the Funds may not be appropriate if you are a non-resident in New Zealand for tax purposes. This is because New Zealand tax will be imposed on income attributed by the Funds to you at 28%, which may be higher than the New Zealand tax rate that applies to income that you may get from other comparable New Zealand investments.

Given that there are a number of circumstances where you may pay more tax in a PIE, rather than other forms of investment, it is important to consult your professional tax advisor to determine whether a PIE is best for you.

## Hedging taxation treatment

The financial arrangement rules will apply to foreign currency hedges where the FDR currency hedges method cannot be applied or is not adopted. The FDR foreign currency hedges tax calculation method may or may not be implemented on a fund by fund basis, as appropriate. That method is intended to minimise mismatches in income and expenditure on hedges relating to shares taxed under the FDR method or which are listed on the ASX, and income on those shares.

## 13. Investing through administration and custodial services (e.g. wrap platforms)

The Funds may be 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.

## 14. No guarantee

Neither we, nor any other person, or the Supervisor, guarantees the return of capital and/or the repayment of Units to you.

## 15. Key Documents in understanding the Funds and how they operate

These include:

- Trust Deed
- Statement of Investment Policies and Objectives (SIPO)
- Manager Licence to operate
- Scheme Provider Agreement with the Inland Revenue Department
- Simplicity NZ Limited's constitution

The documents are available from us at: [www.simplicityfunds.kiwi](http://www.simplicityfunds.kiwi).

## 16. Glossary

**“Assets”** means any asset of a Fund (whether tangible or intangible) as more fully defined in the Trust Deed.

**“ASX”** means the Australian Stock Exchange.

**“Current Value”** means the Assets less the Liabilities of the Fund as more fully defined in the Trust Deed. For Unit pricing purposes, it is not necessarily equivalent to the net asset value in the financial statements. For example, differences arise due to the cost of realisation being included in the financial statements and other adjustments that are made for unit pricing purposes.

**“Custodian”** means Simplicity Nominees Limited.

**“Document”** means this Other Material Information Document which has been prepared to meet the requirements of section 57(1)(b)(ii) of the FMC Act and clause 52 of Schedule 4 of the FMC Regulations.

**“FMA”** means the Financial Markets Authority, the government agency responsible for regulating capital markets and financial services in New Zealand.

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

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

**“Funds”** means the investment funds set out in the table on page 3.

**“Liabilities”** means the liabilities of a Fund (e.g. unpaid administrative costs and expenses) as more fully defined in the Trust Deed.

**“Management Agreement”** means the agreement between the Manager and MMC Limited pursuant to which the Manager effectively outsources administration and investment management functions to MMC Limited and MMC Limited provides resources (including people, operational and financial resource) to the Manager as required to perform those functions.

**“Manager”, “we”, “us” and “our”** means Simplicity NZ Limited, the manager of the Funds.

**“Maximum Investor Interest”** means that an investor in an investor class must not hold more than 20% of the total investor interests in the class as defined in the Tax Act.

**“MMC Limited”** means MMC (New Zealand) Limited.

**“NZX”** means NZX Limited.

**“PIE”** means a portfolio investment entity for the purposes of the Tax Act.

**“PIE income”** means the income attributed to a person by the PIEs in which the person has invested, less any losses attributed to the person by PIEs, but does not include any dividends paid to the person by Listed PIEs (a type of PIE). Dividends from a Listed PIE that are not excluded income under the Tax Act are taxable income.

**“PDS”** means a product disclosure statement under the FMC Act. A PDS is a document containing information about that Fund intended to assist a prudent but non-expert person to decide whether to invest in that Fund. A retail investor must be given a copy of the relevant PDS before investing. The PDSs for the Funds can be obtained from the offer register on the Disclose website [www.companiesoffice.govt.nz/disclose/](http://www.companiesoffice.govt.nz/disclose/).

**“PIR”** means the Prescribed Investor Rate as that term is defined in the Tax Act.

**“SIPO”** means the statement of investment policy and objectives for the Funds. In broad terms, the SIPO is a document setting out the parameters pursuant to which each of the Funds will be invested. The SIPO for the Funds can be obtained from the scheme register on the Disclose website [www.companiesoffice.govt.nz/disclose/](http://www.companiesoffice.govt.nz/disclose/).

**“Supervisor”** means Public Trust, the supervisor of the Funds.

**“Tax Act”** means the Income Tax Act 2007.

**“Trust Deed”** means the Simplicity Investment Funds Trust Deed.

**“Unit”** means an undivided interest in the relevant Fund as more fully defined in the Trust Deed.

**“You” or “Your”** refers to a person who invests in the Funds.