



# NZ Funds Wealth Builder

Other Material Information

30 June 2022

## NZFunds

Transforming Wealth

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## 1. Background

This document tells you more about the funds (Strategies) offered under NZ Funds Wealth Builder. It should be read together with the Product Disclosure Statement (PDS), Statement of Investment Policy and Objectives (SIPO), Quarterly Fund Updates and any other documents on the offer and scheme registers at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz).

In this document, 'you', 'your', 'investor' or 'unit holder' means a person that invests in a Strategy, and 'NZ Funds', 'we', 'us', 'our' or 'the Manager' means New Zealand Funds Management Limited. When we use the word 'current' or 'currently' about a law, policy or practice, we mean at the date of this document.

The information in this document may change. Please check the offer register at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz) for any updates.

## 2. NZ Funds Wealth Builder

The Strategies are established under the NZ Funds Managed Portfolio Service Part Two managed investment scheme (Scheme) registered under the Financial Markets Conduct Act 2013 (FMC Act). The Scheme is managed under the rules set out in its trust deed, also called the governing document (Trust Deed). You can get a copy of the Trust Deed from the scheme register at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz).

NZ Funds Wealth Builder offers four investment options: three funds (NZ Funds Wealth Builder - Income Strategy, NZ Funds Wealth Builder - Inflation Strategy, and NZ Funds Wealth Builder - Growth Strategy) and a Life Cycle investment option (Life Cycle).

Life Cycle automatically allocates your investment across the three Strategies each year, based on your age. You cannot change this allocation. More information on Life Cycle and each Strategy is included in the PDS.

## 3. The Manager

### About NZ Funds

NZ Funds is the manager of the Strategies. We are licensed by the Financial Markets Authority (FMA) to be a manager of registered managed investment schemes under the FMC Act.

NZ Funds is wholly owned by Investment Group Holdings Limited (IGHL). IGHL is owned by interests associated with its directors and by the NZ Funds Executive Trustee Company Limited as trustee of the IGHL Trust. The beneficiaries of the IGHL Trust are mainly senior management of NZ Funds.

## Our directors

**Gerald Noel Siddall** (LLB) is a non-executive director and Chairman of NZ Funds. Gerald has more than 35 years' experience in the financial services industry in New Zealand and overseas. He co-founded NZ Funds in 1988 and was responsible for building and leading NZ Funds until 2009. He was previously a director of NZ Funds until March 2010. He was reappointed as a director of NZ Funds on 21 March 2016. Gerald is not an employee of NZ Funds and he is not an independent director as he has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

**Bruce Baillie** (BCom, CA) is an independent director of NZ Funds, appointed from January 2022. Bruce is an experienced accountant who had a 30-year career as a Partner at PwC, involved in advising a wide range of organisations including many in the financial services industry, before embarking on a career as an independent director. He has significant experience in audit and financial reporting matters and is now an independent director and advisor to a range of organisations, including those in the financial services and fintech industries.

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

**John Lindsay Cobb** (PG Dip (Business Finance), NZX Diploma, Level 1 and 2, ASX Derivatives qualification) is an independent director of NZ Funds. He was appointed a director of NZ Funds on 1 February 2019. John has had a 20-year career in share broking and investment banking, and now works with a number of small businesses assisting with growth and investment.

**Michael John Lang** (BA (Econ), LLB (Hons), CFA) is a director and Chief Executive of NZ Funds. Michael has more than 25 years experience in the financial services industry in New Zealand and in hedge funds overseas. He joined NZ Funds in 1993. He left to work overseas in 2003 and returned in 2008. Michael became a director of NZ Funds in 2010 and was appointed Chief Executive on 1 October 2018. Michael is not an independent director as he is an employee of NZ Funds and has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

**Russell William Tills** (BCom, ACA) is a non-executive director of NZ Funds. Russell has more than 40 years' experience in the financial services industry in New Zealand and overseas. He joined NZ Funds in 1989 and, along with Gerald Siddall, was responsible for building and leading NZ Funds until 2009. He was a director of NZ Funds until March 2010. He was reappointed as a director of NZ Funds on 21 March 2016. Russell is not an employee of NZ Funds and he is not an independent director as he has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

Our directors may change from time to time. You can find the names of our directors at [companies-register.companiesoffice.govt.nz](http://companies-register.companiesoffice.govt.nz).

## 4. Other parties

### Supervisor

The New Zealand Guardian Trust Company Limited is the supervisor (Supervisor) of the Strategies. The Supervisor is licensed by the FMA to act as a supervisor of registered managed investment schemes under the Financial Markets Supervisors Act 2011. More information on their licence is available on the FMA's website at [www.fma.govt.nz](http://www.fma.govt.nz).

The Supervisor's current directors are Robin Albert Flannagan and Bryan David Connor. The Supervisor's directors may change from time to time. You can find the names of the Supervisor's directors at [companies-register.companiesoffice.govt.nz](http://companies-register.companiesoffice.govt.nz).

### Custodian

The Supervisor is responsible for holding the property of the Strategies. The Supervisor has entered into custodial services agreements with Citibank N.A. to provide custodial services to the Strategies, however, all property of the Strategies is currently held by the Supervisor.

### Auditor

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

### Solicitors

The solicitors are Russell McVeagh.

## 5. Supervisor and Manager indemnity

Subject to the limits on permitted indemnities under the FMC Act, both we and the Supervisor are indemnified out of the Strategy for all losses, costs and expenses we or the Supervisor incur in carrying out our roles as Manager and Supervisor.

The indemnity does not cover losses, costs and expenses arising from our wilful default, wilful breach of trust, fraud or gross negligence. More information is set out in the Trust Deed.

## 6. Investing in NZ Funds Wealth Builder

NZ Funds Wealth Builder is designed for individuals saving for retirement or for a specific goal. You can invest using either the Life Cycle or Self Select option. Under Self Select, you can choose which Strategies you want to invest in, and how much you would like to invest in each Strategy.

Under Life Cycle, your investment is automatically allocated across the Strategies each year in accordance with a predetermined glidepath based on your age (Glidepath). The table on page 4 sets out the Strategy allocations under Life Cycle. If your investment is a joint account, your Glidepath allocation will be based on the age of the oldest account holder, unless you tell us otherwise.

By choosing Life Cycle, you agree that your investment in the Strategies will be adjusted on 31 August each year (or if 31 August is not a business day, on the next business day) in accordance with the Glidepath (reallocation date).

Your allocation to each Strategy is set according to the Glidepath and as a result, you have no discretion to change the amount invested in each Strategy. If you wish to change your investment mix, you need to fully withdraw from Life Cycle and reinvest in the Strategies using Self Select.

We may change the Glidepath and Strategy allocations in the future. If we do, we will tell you at least 30 days' before we make any change. We will assume that you agree to the changes unless you tell us within the 30 day period, in which case your Strategy allocations will not change, and you will be moved from Life Cycle to Self Select.

How you join NZ Funds Wealth Builder is explained in the PDS. You can make investments by lump sum or regular payments.

Amounts are paid by you into a non-interest bearing bank account and will be applied to the relevant Strategies once your application is accepted.

For all lump sum and regular payments, we will use your Strategy allocations current at the time of investment (as chosen by you if you are invested using Self Select, or as automatically allocated if you are invested in Life Cycle).

By making additional investments, you agree to be bound by the NZ Funds Wealth Builder terms and conditions current at the time of making the investment, as set out in the PDS, Trust Deed, and online register entry at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz).

## Life Cycle – Glidepath and Strategy allocations

Age	Income Strategy	Inflation Strategy	Growth Strategy
0 - 54	5%	10%	85%
55	5%	13%	82%
56	5%	19%	76%
57	5%	30%	65%
58	7%	34%	59%
59	10%	34%	56%
60	14%	34%	52%
61	17%	34%	49%
62	20%	34%	46%
63	23%	34%	43%
64	26%	34%	40%
65	27%	34%	39%
66	29%	34%	37%
67	30%	34%	36%
68	31%	34%	35%
69	31%	34%	35%
70	32%	34%	34%
71	32%	34%	34%
72	33%	34%	33%
73	34%	34%	32%
74	34%	34%	32%
75	35%	34%	31%
76	35%	34%	31%
77	36%	34%	30%

Age	Income Strategy	Inflation Strategy	Growth Strategy
78	37%	34%	29%
79	37%	34%	29%
80	38%	34%	28%
81	38%	34%	28%
82	39%	34%	27%
83	40%	34%	26%
84	40%	34%	26%
85	41%	34%	25%
86	42%	34%	24%
87	44%	34%	22%
88	45%	34%	21%
89	46%	34%	20%
90	48%	34%	18%
91	49%	34%	17%
92	51%	34%	15%
93	52%	34%	14%
94	53%	34%	13%
95	55%	34%	11%
96	56%	34%	10%
97	58%	34%	8%
98	59%	34%	7%
99	60%	34%	6%
100	62%	34%	4%

## 7. Withdrawals

Subject to our right to defer or suspend withdrawals, we will redeem your units in a Strategy under the procedures set out in the Trust Deed where you give us a valid withdrawal request. You cannot cancel a withdrawal request unless we agree.

If you have chosen Self Select, you can withdraw amounts from one or more Strategies at your discretion. If you have chosen Life Cycle, withdrawals will be deducted from each Strategy in line with the proportions under the Glidepath based on your age at the last reallocation date. You cannot change the proportion withdrawn from each Strategy.

Withdrawal payments are based on the unit price for each unit redeemed (Redemption Price). The Redemption Price will be calculated for the day we receive your withdrawal request if that day is a business day and your withdrawal request is received before 2pm. If your withdrawal request is received after 2pm or on a day that is not a business day, the Redemption Price will be calculated for the next business day.

Under the Trust Deed, we must pay withdrawals within 20 business days of the date the withdrawal request is accepted (subject to our right to defer or suspend withdrawals). However, we normally pay withdrawals within four business days of the date the withdrawal request is accepted.

We may defer withdrawals for up to two business days. We may also introduce restrictions on withdrawals, including withdrawal notice periods.

## 8. Switches

If you have chosen Life Cycle, you cannot switch between Strategies as your investment is allocated automatically using the Glidepath. If you have chosen Self Select, you can generally switch your investment at any time (subject to our right to defer or suspend switches).

If you are switching between Life Cycle and Self Select, you must make a full withdrawal from all Strategies you are invested in, followed by a reinvestment.

We normally process switch requests within two business days of receipt. We may defer processing some or all switch requests for up to 21 days if we consider it necessary or appropriate. Where a switch request is deferred, we will calculate withdrawal proceeds on the date the switch request is processed, not on the date we receive the switch request.

## 9. Other key terms

This section summarises some of the key terms used in the Strategies. For more detailed information, please see the Trust Deed.

### Valuation & unit pricing

Calculating a unit price allows us to value your investment in a Strategy. Each Strategy's unit price is calculated by dividing the net asset value of that Strategy by the number of units issued to investors. The net asset value is the value of a Strategy's assets less its liabilities.

The Trust Deed sets out the principles that apply to the valuation of a Strategy's assets and calculation of net asset value. We generally calculate the net asset value of a Strategy each business day. We may use the calculated unit price at the end of any month for up to two business days after the month ends.

We may set valuation methods and policies for each category of asset and change them from time to time. The Supervisor approves these methods and policies and we will tell the Supervisor if we make any changes. Sometimes we use estimates to value assets, for example, where assets are priced monthly, or where assets become illiquid (difficult to convert to cash) or are not regularly traded.

Specific transactions (for example, large transactions) may require us to adjust the unit price for that day so that the costs of those transactions are paid by the investors involved in those transactions. We do not currently charge transaction costs.

### Issuing units

We may decline to accept any application for units in a Strategy and do not have to give a reason for declining an application. We may also defer accepting any application by up to two business days.

There are currently no minimum investment amounts. We will tell you if we introduce a minimum amount.

### Deferring & suspending withdrawals & switches

Where we get withdrawal or switch requests for more than 10% of a Strategy's units on a particular date, we may 'scale back' requests so that only some of the units are redeemed. Any units not redeemed may be redeemed by us at any time. There is no specific time in which we must redeem these units.

In certain circumstances, we may also suspend withdrawals and switches by giving a redemption suspension notice. For example, if we think it is not practicable, or would be materially prejudicial to the interests of any unit holders, to sell assets for redemptions. This could be due to market conditions, the nature of any asset or other circumstances.

If we give a redemption suspension notice, this means all withdrawal and switch requests are suspended until we tell you the suspension is cancelled. There is no limit on the suspension period for any Strategy.

Even if we give a redemption suspension notice, we may allow you to withdraw:

- if, in our opinion, suspending your withdrawal or switch request would cause you financial hardship;
- if you have a regular withdrawal arrangement with us; or
- in any other circumstances, we consider reasonable.

### Closing your investment

In some circumstances, we may need to redeem all your units or close your investment in a Strategy. For example, if we consider it is necessary to comply with any laws or to avoid adverse regulatory consequences for us, the Supervisor, the Strategy or investors in the Strategy generally.

We may also redeem all your units if your withdrawal request would leave you with less than the minimum holding, or where it is necessary to maintain a Strategy's PIE status.

## Borrowing

Borrowing is allowed under the Trust Deed. However, the Strategies do not currently borrow money for the purpose of investing. This does not include ongoing operational agreements with service providers such as overdraft facilities and creditor relationships or leverage created through the use of derivatives.

## Winding-up/insolvency

If a Strategy is wound up or becomes insolvent, the assets of the Strategy will be sold and the money will be used first to meet the claims of any creditors. After all creditors have been paid, your share of what remains will be paid to you.

## Indemnity for tax liability

You are required to repay us and the Supervisor for any tax paid on your behalf on income from your investment in a Strategy. This only applies if your investment is not sufficient to meet your tax liability.

## Changes to Trust Deed

The Trust Deed can be changed by us and the Supervisor. Any changes must comply with the FMC Act.

# 10. More about fees and charges

## Annual fund charges

Estimated annual fund charges are included in section 5 of the PDS and are made up of a management fee, estimated service fee (which covers the Supervisor's fee and other service charges), external manager fee, and performance fee.

In addition to annual fund charges, transaction costs of buying and selling assets (e.g. brokerage) are paid directly or indirectly by the Strategies and reflected in the unit price.

## Transaction costs

In addition to any annual fund charges, transaction costs of buying and selling assets (e.g. brokerage) are paid directly or indirectly by the Strategies and are reflected in the unit price.

## Management fee

Each Strategy is charged an annual management fee by NZ Funds which covers the management of the Strategies. The management fee is calculated daily and paid monthly.

We may change the management fee, so long as we tell the Supervisor and investors one month before we change it. We may also charge an investor or group of investors (including any group of investors advised by a financial advice provider), a lower management fee, or we may rebate all or some of the management fee for an investor or a group of investors.

## Current management fees

The current management fees are:

Strategy		Management Fee* (p.a.)
Income Strategy		1.04%
Inflation Strategy		1.14%
Growth Strategy		1.18%
Life Cycle**	Age 0-54	1.17%
	At age 65	1.13%
	At age 75	1.12%

\* As a percentage of the net asset value of each Strategy.

\*\* We have selected 3 examples to provide information on Life Cycle in this document.

## Service fee

Service fees cover the charges for services provided to the Strategies and related wholesale trusts that the Strategies invest in, such as fund administration, custody, audit and legal fees, and the Supervisor's fees.

## Supervisor fee

The Supervisor charges a fee for its services. The Supervisor's fee for each Strategy is currently up to 0.035% per annum of the gross asset value. Supervisor fees are calculated daily and paid monthly by each Strategy. Estimates of Supervisor fees are included within 'annual fund charges' in the PDS. The Supervisor may, if we agree, change the Supervisor fee at any time so long as we or the Supervisor give one month's notice to investors.

## Other third party service charges

The Strategies and the wholesale trusts managed by us (wholesale trusts) that they invest in may incur other third party charges for services such as legal, audit and custody. These third party service charges are paid out of the assets of the Strategy or wholesale trust. Estimates of these charges are included within 'annual fund charges' in the PDS.

## External management fee

The Strategies may invest in underlying funds managed by external specialist investment managers (external managers) which may charge fees (including entry fees, exit fees, management and administration fees, and performance fees) and incur expenses.

An external manager will typically only charge a performance fee when its investment return outperforms a benchmark or a performance hurdle (which may be 0%). The estimates in the table below include performance fees which are based on an assumption of the likely outperformance of the current external managers.

As the Strategies indirectly invest in external managers their returns will be affected by the fees and expenses charged by external managers as they are reflected in the value of the Strategy's investments in the funds of these external managers.

## Current estimated external management fees

Estimates of other external management fees and expenses are based on fee information provided by the current external managers. Assumptions on the percentage of each Strategy that is invested in external managers are based on the Strategies' current target allocations.

The external managers and the Strategies' allocation to those managers will change from time to time. Actual fees will depend on the managers selected, their performance, and the allocation to those managers, which is likely to vary from these estimates.

The annual fund charges in the PDS include the following estimated external management fees:

Strategy		Estimated external management fee*
Income Strategy		0.00%
Inflation Strategy		0.16%
Growth Strategy		0.36%
Life Cycle	Age 0-54	0.32%
	At age 65	0.20%
	At age 75	0.17%

\*As a percentage of the net asset value of each Strategy.



## Performance fee

None of the Strategies are charged a performance fee directly by NZ Funds. However, where performance targets are met, NZ Funds may charge a performance fee in certain wholesale trusts that the Strategies invest in. The wholesale trusts where a performance fee may be charged and the Strategies that currently invest in those wholesale trusts are set out in the table below.

The performance fee for each wholesale trust is calculated daily and reflected in its unit price. Performance fees are paid on or after 31 March each year, subject to a high-water mark as described in the PDS. The high-water mark cannot be reset lower.

The wholesale trusts use either recognised market indices or absolute return benchmarks as their performance hurdle rates of return. Out-performance of these market indices, whether the market indices return is positive or negative, will result in a performance fee being accrued even though the unit price may be below the last high-water mark.

The performance returns of each wholesale trust are calculated on a before tax basis and include imputation credits (where applicable). When we calculate the performance of the hurdle rate, we include the following notional management fees:

- for the Private Dividend Yield Trust and Private Global Macro Trust, 0.40% per annum; and
- for the other wholesale trusts, 0.20% per annum.

The notional management fee has the effect of increasing the required level of return the wholesale trust must achieve before it is eligible for a performance fee.

Below is an example of the Private Dividend Yield Trust performance fee. It is a simplified example of how the performance fee is calculated in different scenarios. It is for illustration only and is not an indication of an actual calculation made or a forecast investment return.

### Wholesale trusts that may charge a performance fee

Investing Strategies	Private Core Income Trust	Private Global Income Trust	Private Absolute Return Trust	Private Dividend Yield Trust	Private Global Macro Trust	Private Global Inflation
Income Strategy	✓	✓				
Inflation Strategy			✓	✓		✓
Growth Strategy				✓	✓	

### Example of Private Dividend Yield Trust performance fee

Financial year	Investment value at start of year	Investment value at end of year (before performance fee)	Investment return	Hurdle rate	Relative performance %	Value of under-performance brought forward	Net out performance	Performance fee charged	High-water mark	High-water mark met	Performance fee paid	Performance fee accrued to pay in future years	Under performance carried forward
Y1	\$10,000.00	\$11,000.00	10.0%	8.0%	2.0%	\$200.00	nil	\$200.00	\$30.00	\$10,000.00	✓	\$30.00	nil
Y2	\$10,970.00	\$11,847.60	8.0%	10.0%	-2.0%	nil	-\$219.40	nil	\$10,970.00	✓	nil	nil	-\$219.40
Y3	\$11,847.60	\$10,662.84	-10.0%	-15.0%	5.0%	\$592.38	-\$219.40	\$372.98	\$55.95	\$10,970.00	✗	nil	\$55.95
Y4	\$10,606.89	\$12,197.93	15.0%	15.0%	0.0%	nil	nil	nil	\$10,970.00	✓	\$55.95	nil	nil

In this example, the performance fee of the Private Dividend Yield Trust is 15% of the amount by which its performance (before tax but including imputation credits) exceeds the hurdle rate of return.

In year one, the Private Dividend Yield Trust outperforms the hurdle rate by 2% accruing a performance fee which is then paid at the end of the performance period and a new high-water mark set.

In year two, the Private Dividend Yield Trust underperforms the hurdle rate and consequently no performance fee is accrued. Any underperformance is carried forward and must be recovered before any future performance fee is accrued. This is illustrated in year three, when the Private Dividend Yield Trust returns more than the hurdle rate and the year two underperformance is recovered.

As the outperformance in year three exceeds the underperformance from year two, a performance fee is accrued in year three. However, no performance fee is paid at the end of year three as the Private Dividend Yield Trust is below the last high-water mark (set in year one).

The performance fee accrued in year three is not paid until the end of year four, when the Private Dividend Yield Trust exceeds the high-water mark. A new high-water mark is set at the end of year four.

The annual fund charges in the PDS include the following estimated performance fees:

Strategy		Estimated performance fee*
Income Strategy		0.03%
Inflation Strategy		0.04%
Growth Strategy		0.04%
Life Cycle	Age 0-54	0.04%
	At age 65	0.04%
	At age 75	0.04%

\* As a percentage of the net asset value of each Strategy.

These estimates are based on the following assumptions:

- that the wholesale trust will on average achieve returns above the market index over the long term.
- that the percentage of each Strategy invested in the wholesale trusts that charge performance fees are based on current target allocations.

The estimates are not intended to indicate any expected returns or fees. Actual performance fees will vary from the estimates. Actual performance fees for the most recent year will be available in the latest Quarterly Fund Update.

The performance fees received by NZ Funds since the Strategies commenced are shown (as a percentage of the net asset value of each Strategy) in the table below. These were paid indirectly by the wholesale trusts that each Strategy invests in.

Year ended March	Income Strategy	Inflation Strategy	Growth Strategy
2020	nil	nil	nil
2021	2.56%	7.38%	18.49%
2022	0.78%	nil	nil

All performance fees paid to NZ Funds by the wholesale trusts are on arm's length terms and meet the requirements for related party transactions in the FMC Act.

## Fee rebate

We may in our discretion and from our own funds, pay or rebate some or all of the fees and expenses described in this section.

## Expense reimbursement

The Trust Deed allows us, the Supervisor, and any parties that may be appointed by us or the Supervisor, to be reimbursed for all expenses properly incurred.

## Basis for estimates of fund charges in PDS

The annual fund charges in the PDS include estimates of Supervisor fees, other third party service charges, external manager fees, and performance fees.

Estimates of external manager fees and performance fees are discussed above. All other estimates are based on our experience with other funds that we manage and the level of charges that we expect to be incurred by the Strategies over the next year.

Actual annual fund charges for each Strategy for the most recent year are available in the latest Quarterly Fund Update which you can get from our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz).

## Other charges

If you are aged 18 or over, we charge an administration fee of \$29.76 a year. This fee is deducted monthly from your investment.

## Action fees

We do not charge any establishment, contribution, termination, withdrawal or switch fees. This is a key feature of NZ Funds Wealth Builder.

NZ Funds Private Wealth will not charge any advice fees for your investment in NZ Funds Wealth Builder, nor will we facilitate the deduction of advice fees for other financial advice providers.

## Service payments

We may pay financial advice providers an onboarding and ongoing service payment in recognition of the effort and costs associated with providing services to you regarding your investment in NZ Funds Wealth Builder. Where this occurs you will not be charged an additional fee.

## GST

All fee estimates do not include GST or other similar tax. This means that if any GST or other similar tax is payable, it will be in addition to the amount of the stated fee.

## Contribution to fees

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

# 11. More about active management

NZ Funds uses an active investment management approach in managing the Strategies. We make ongoing investment decisions, scanning for emerging opportunities, buying and selling as appropriate, and using sophisticated financial instruments in seeking to achieve the investment objectives of each Strategy.

## Active management generally

Our active management approach means that we (and the external specialist investment managers we work with) make buy and sell decisions every day, increase your investments in assets we believe have stronger upside, and reduce investments in assets that we believe have run their course.

We also have the ability to invest using sophisticated investment instruments and techniques (used by other managers who manage money in similar ways to us). These instruments and techniques may not be generally accessible to individual investors.

## Actual investment mix

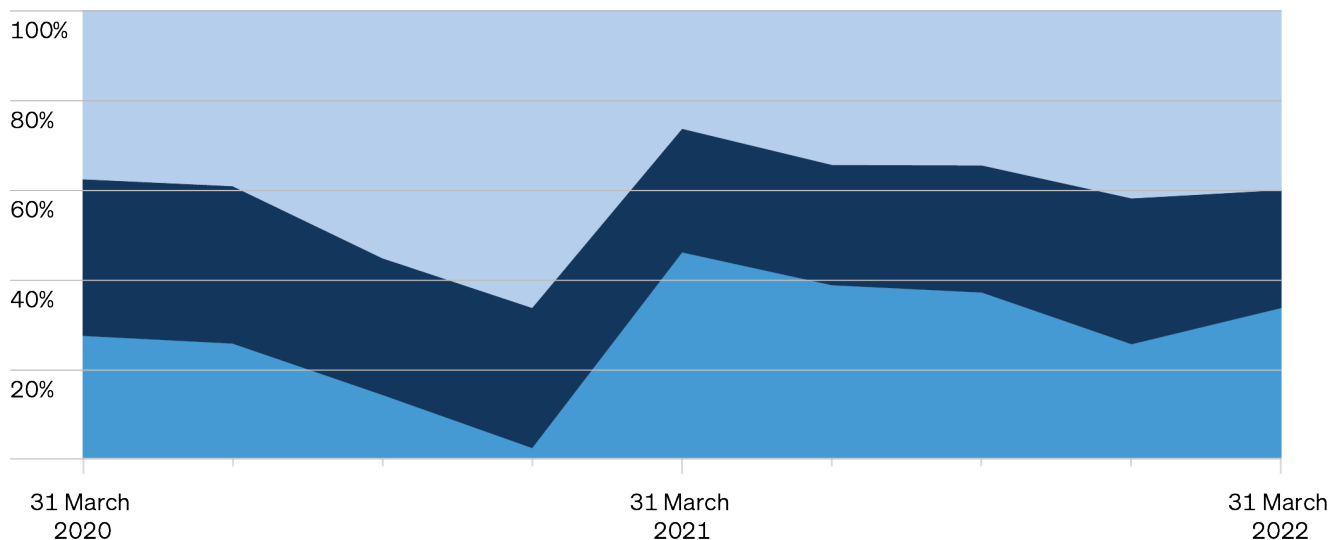
As a result of our active management approach, the actual investment mix of a Strategy may vary significantly from the target investment mix shown in the table in Section 3 of the PDS.

This can be illustrated by the graphs on page 9, which show the actual investment mix of each Strategy since inception.

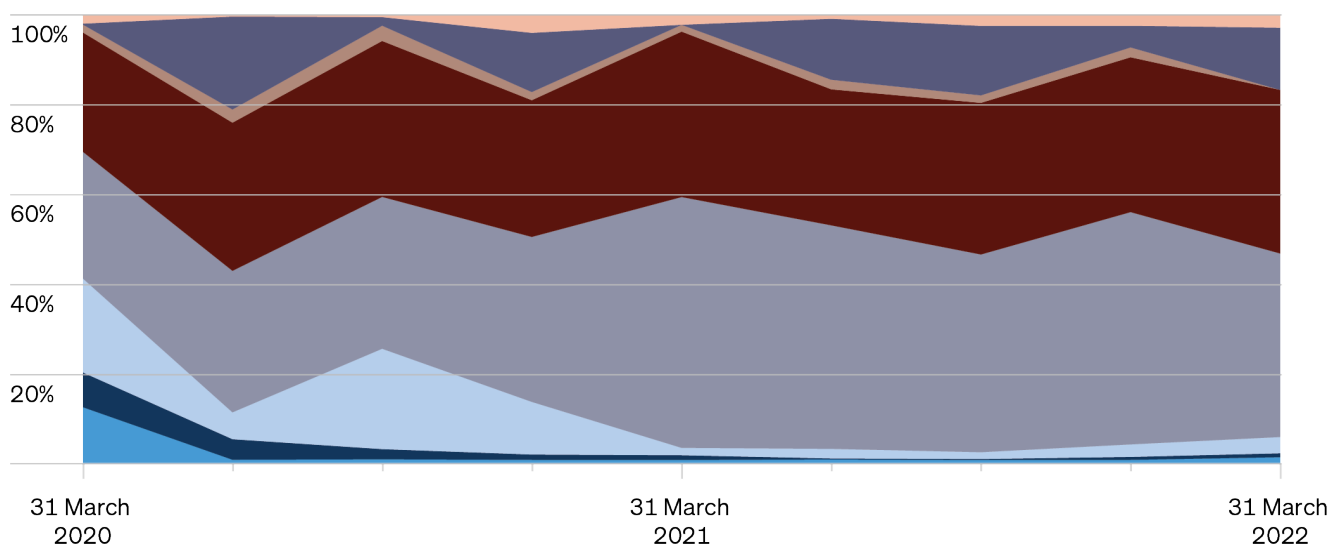
The actual investment mix in the graphs is taken from the Quarterly Fund Updates for each Strategy, which are scaled to 100% to take into account the impact of derivatives.



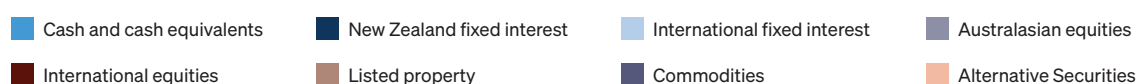
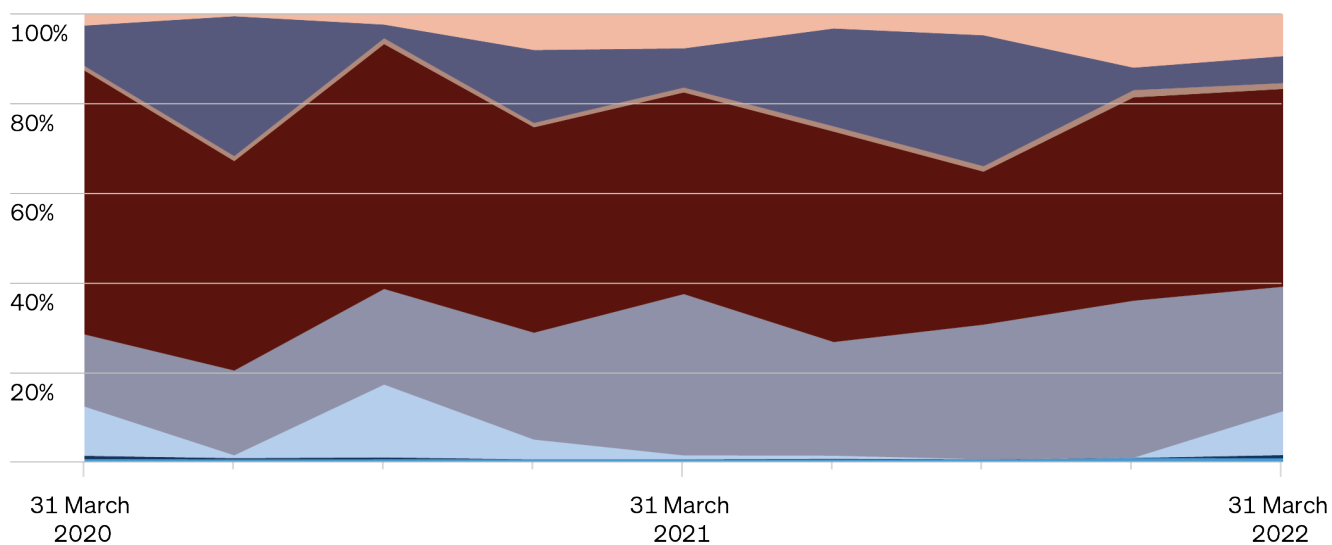
### Wealth Builder Income Strategy



### Wealth Builder Inflation Strategy



### Wealth Builder Growth Strategy



## Use of derivatives

Derivatives can be considered to be 'leveraged' investments, which means that a relatively small investment in derivatives can produce the same gain (or loss) as a much larger investment in the underlying asset itself. The use of derivatives and the leverage their use creates may increase or decrease investment risk. NZ Funds uses derivatives in a selective manner and makes decisions on the amount of leverage that the individual Strategies may use.

The use of derivatives is somewhat like an individual investor borrowing money to buy an investment. For example, an investor might borrow money to purchase a property or share investment. As a result, gains or losses may be increased compared to an investment that has no borrowing. They can also be used to avoid losses or increase gains.

The use of leverage is managed through NZ Funds' active management approach and through the processes and policies surrounding our investment guidelines. The guidelines are not limits on the amount of leverage that may be used in each authorised asset class and the guidelines do not impose a limit on how we may invest. However, leverage is only used in seeking to achieve each Strategy's investment objective and is an essential aspect of our active investment approach.

NZ Funds is expected to regularly use leverage (via derivatives) to change the exposure to an authorised asset class. The actual amount of leverage used by the Strategies for each year since inception is set out below.

The use of derivatives can also substantially alter the returns and risks of a Strategy and may result in higher or lower returns than a fund that does not use derivatives.

Year ended 31 March	Income Strategy	Inflation Strategy	Growth Strategy
2021	101%-134%	101%-203%	116%-216%
2022	100%-110%	103%-201%	107%-212%

Investors should be aware that the leverage of each Strategy changes frequently and those changes can be material.

In most cases, we use notional market exposure when calculating leverage. This means that, in the table above, when we own a derivative we show how much exposure to an authorised asset class the derivative contract gives the Strategy. However, some forms of economic exposure such as exposure to bonds or currencies are included on a profit and loss basis.

Also, we do not normally net exposures when calculating the amount of leverage in the Strategy. This means that we do not distinguish between an active exposure that is designed to enhance the return of the Strategy and an exposure that is designed to hedge (or reduce the risk of) the Strategy. Instead, we normally show the total value of all exposures added together.

## Foreign currency

We actively manage the foreign currency exposure of each Strategy. Where a Strategy holds assets denominated in a foreign currency, we have the choice of whether to hedge back

to the New Zealand dollar or retain a foreign currency exposure. Irrespective of whether a Strategy holds investments in that currency, a Strategy can also take active foreign currency positions by investing in non-New Zealand dollar cash or foreign currency derivatives. The foreign currency exposure for each Strategy is set out in its Quarterly Fund Update.

## Investment guidelines

We maintain internal investment guidelines which are used in the oversight of the Strategies. These guidelines are designed to ensure the Strategies invest in accordance with their investment objective and timeframe.

The guidelines set out the ranges within which each Strategy will usually (but not always) invest in each authorised asset class, and also address other investment matters such as the ability of a Strategy to use leverage and the level of liquidity that a Strategy will target.

Initial guidelines are proposed by the NZ Funds Investment team and approved by the NZ Funds Investment Committee (a committee of the NZ Funds Board) and ratified by the NZ Funds Board.

Any member of the NZ Funds Investment, Legal, Compliance or Funds Management teams may propose a change to the guidelines, or the introduction of a new guideline. Amending a guideline (or introducing a new guideline) requires the approval of the NZ Funds Investment Committee and ratification or approval by the NZ Funds Board. The Board may ratify or approve the amended guideline (with or without additional amendments) or reject it.

If the Board rejects or amends a guideline change, the Investment team must take any action required to ensure that the affected Strategy continues to comply with the guidelines. The detailed process for administering the guidelines is set out in our investment guidelines policy.

Our proprietary investment monitoring system enables compliance oversight of the guidelines. The system generates a daily report that identifies whether a Strategy is in full compliance with the guidelines or is close to being, or is outside guidelines, giving the Investment team an opportunity to take corrective action.

It is expected that the guidelines will be exceeded from time to time over the course of an economic cycle, but when this occurs, the Manager will respond promptly to correct that. It will either alter the investment, or in some cases may seek a guideline change from the NZ Funds Investment Committee and NZ Funds Board.

Adherence to the guidelines is monitored by the NZ Funds Compliance team. Where the Compliance team identify that a guideline has been exceeded, they notify the Chief Investment Officer and Chief Operating Officer of the event and of the proposed solution.

The Portfolio Manager responsible is then required to take action to bring the Strategy back within the guideline ranges (or if not possible or appropriate, is required to provide details of how the Strategy will be brought back within the guideline ranges, and the timeframe for doing so) or seek approval for the guideline to be amended.

Each Strategy is also reviewed against the guidelines on a monthly basis by the Investment Guidelines Meeting and any exceptions are noted (SIPO compliance for the preceding month is also confirmed at this meeting). The minutes of the Investment Guidelines Meeting are tabled at the Investment Committee meeting.

It is important to note that the exceeding of a guideline, or a deviation from the target investment mix for a Strategy, does not amount to a limit break under the SIPO. The purchase of an unauthorised asset class does however constitute a SIPO limit break.

## 12. Risks

Every investment has risks. The primary risks of investing in a Strategy include:

- not getting back some or all of your money;
- not getting the returns you expected;
- experiencing periods where your investment is worth less than it was previously; and
- not being able to withdraw from a Strategy when you want to.

The following information is in addition to section 4 of the PDS – “What are the risks of investing?”. In the PDS, we discuss what we believe are the more significant risks of investing in the Strategies. However, there are other risks associated with the Strategies that could impact your investment which are discussed below. If any of these risks eventuate, a Strategy may be adversely affected and you could receive back less than you invested.

You may lose some or all of your investment. No rate of return or repayment of your investment is guaranteed by NZ Funds, the Supervisor, or any other person.

### General investment risks

#### Interest rate risk

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

#### Credit risk

This is the risk that a Strategy's returns may fluctuate as a result of an issuer of a security failing to pay interest or principal when due.

#### Equity risk

This is the risk that a Strategy's returns may fluctuate as a result of changes in the value of equity investments. An equity investment may be affected by many factors, including the performance of the relevant company, market opinion, and the economic performance of a country or sector.

#### Derivative risk

This is the risk that a Strategy's returns may fluctuate as a result of the use of derivatives. Derivatives can be considered to be 'leveraged' investments, which means that a relatively small investment in derivatives can produce the same gain (or loss) as a much larger investment in the underlying asset itself. The use of derivatives and the leverage their use creates may adversely affect your investment.

#### Political risk

Political risk is the risk that a Strategy's returns may fluctuate as a result of political changes or instability in a country. This could arise from a change in government, legislative bodies, other foreign policy makers, or military actions. Political risk may also arise as a result of geo-political events such as wars, terrorist acts and tensions between states.

#### Other risks

##### Counterparty risk

This is the risk that a party to a financial transaction or contract involving a Strategy fails to meet its obligations. If this occurs, your investment may be adversely affected.

##### Operational risk

This is the risk of failure of internal or external processes, people, policies, technology or systems (for example, a material error in the pricing process), or external events affecting our or the Strategies' operations. If this occurs, your investment may be adversely affected.

##### Cybersecurity risk

This is the risk of attack, damage or unauthorised access to the networks, computers, programs or data that we use. If this occurs, your investment and personal information may be adversely affected.

##### Service provider risk

This is the risk that a key service provider to the Strategies (for example, the Supervisor, the Manager, the trustee and custodian of the wholesale trusts, external managers, settlement and trade counterparties, investment brokers and banks) fail to perform their obligations. If this occurs, your investment may be adversely affected.

##### Wholesale trust investment risk

The Strategies can invest in wholesale trusts. Wholesale trust investment risk is the risk that an adverse event occurs at the wholesale trust level or the wholesale trusts are wound up. If this occurs, your investment may be adversely affected.

##### Valuation risk

The Strategies' unit prices are based on market price information provided by various sources. Valuation risk is the risk that these sources fail to provide an accurate price, or any price whatsoever. If this occurs, your investment may be adversely affected.

##### Suspension of withdrawals risk

In certain circumstances, we can suspend or partially suspend withdrawals from a Strategy. If this happens, you may not be able to withdraw or switch your investment when you want to.

##### Tax risk

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

Each Strategy is currently a Portfolio Investment Entity (PIE). If a Strategy loses its PIE tax status, your after-tax returns may be reduced.

### Regulatory risk

This is the risk that the laws and regulations applying to the Strategies and their investments change in a way that adversely affects a Strategy or your investment.

### Insolvency risk

This is the risk of a Strategy becoming insolvent or being otherwise unable to meet its financial obligations. If this occurs, your investment may be adversely affected.

### Pandemic risks

This is the risk that the Strategies' returns may fluctuate, or that the Strategies may be adversely affected, as a result of virus, disease or other widespread health risks such as the COVID-19 pandemic. The emergence of COVID-19 (or other widespread health risks) can have a significant impact on financial markets and the operations of the Strategies. If this occurs, your investment may be adversely affected.

The expected duration and magnitude of the current COVID-19 pandemic and/or other potential widespread health risks, and the severity and range of their potential impact on your investment, are currently uncertain. Investors should bear this in mind when deciding whether to invest.

The risks described in the PDS and this document are considered to be important risks, but do not cover all known risks of investing in the Strategies. There may also be other risks which are currently unknown that may affect your investment in the Strategies.

## 13. Conflicts of interest

Our conflicts of interest policy provides a framework for identifying, declaring and managing actual, potential or perceived conflicts of interest. The policy also covers gifts and hospitality and forms part of our broader conflicts of interest compliance and ethics frameworks.

The conflicts of interest policy is complemented by our:

- personal holdings policy, which contains restrictions on employees holding or trading in securities; and
- related party transactions policy, which provides a framework for identifying and managing related party transactions and ensuring compliance with the FMC Act.

Conflicts of interest that currently exist include:

- that the Strategies invest in the wholesale trusts which creates a conflict of interest as we charge a performance fee in certain wholesale trusts which the Strategies invest.

These fees affect the value of the wholesale trusts, and indirectly the returns of the Strategies, and could materially influence the investment decisions in respect of the Strategies if non-arm's length fees were paid.

- some of our directors and employees may invest directly in our wholesale trusts.

## 14. How your investment is taxed

If you have any questions about the tax position of your investment in the Strategies, we encourage you to talk to your tax adviser. We and the Supervisor do not take any responsibility for your tax position as a result of an investment in a Strategy.

### Portfolio Investment Entities

Each Strategy has chosen to be a PIE. Under the PIE rules, we will calculate the tax due on your investment in a Strategy each quarter based on your Prescribed Investor Rate (PIR) and pay this tax to Inland Revenue on your behalf.

If you are due a tax refund, we will use it to buy more units in the Strategy for you as long as you are still invested in the Strategy when we receive the refund from Inland Revenue. If you are no longer invested in the Strategy, we will pay the refund to you.

### Choosing your PIR

You need to choose your PIR and tell us what it is. You also need to tell us your IRD number. For an individual, your PIR is based on your taxable income and PIE income for each of the previous two tax years. Your PIR is based on the year which has the lower combined income amount. You can use the table below to help you work out your PIR:

Taxable income		Taxable income + PIE income	PIR
\$0 – \$14,000	AND	\$0 – \$48,000	10.5%
\$0 – \$14,000	AND	\$48,001 – \$70,000	17.5%
\$14,001 – \$48,000	AND	\$0 – \$70,000	17.5%
Over \$48,001	AND	Any amount	28.0%
Any amount	AND	Over \$70,000	28.0%

It is important that you choose the correct PIR. If you select a PIR that is too high, you will be able to get any overpaid tax refunded (either directly or by a reduced tax bill) as part of the annual tax return process. If you select a PIR that is too low, you will have to pay more tax on your income from a Strategy at your correct PIR.

Different rules for choosing a PIR apply for trusts and companies. Testamentary trusts (one set up under a will) can choose a PIR of 0%, 10.5%, 17.5% or 28%. All other trusts can choose a PIR of 0%, 17.5% or 28%. Companies and all other types of entities must choose a PIR of 0%.

If you do not tell us what your PIR is, we will set it at 28% (unless you are a company, when we will set it to 0%). You can change your PIR at any time by contacting us or your financial advice provider. Inland Revenue may also tell us to change your PIR if they think it is wrong. If they do, we must use the PIR that they tell us, unless you tell us to use a different rate.

Sometimes we can treat you as having a 0% PIR. We will do this where your tax liability is greater than the value of your interest in a Strategy. Where this happens, we will cancel all of your units and pay the proceeds to Inland Revenue. You will have to pay any tax liability not covered by this amount. We will also treat you as having a 0% PIR if you reduce your holding in, or fully withdraw from, a Strategy during the quarter, or in the first five days of the following quarter.

## 15. Personal information

### Privacy

The Privacy Act 2020 deals with how we collect, store and use personal information you give us for your investment in the Strategies.

This information may be used by us (including our related entities) and the Supervisor and shared with and used by your financial advice provider and by other service providers to the Strategies for the purposes of arranging, managing and administering your investment, contacting you about your investment, and providing you with newsletters and information about other products and services.

We may also use and share your personal information in order to comply with New Zealand law or the law of another country, including using it to verify (whether by electronic means or otherwise) your identity.

We may also be required to provide it to government agencies including the FMA and Inland Revenue. You have the right to access and correct personal information held by us.

### AML/CFT requirements

Under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, we are required to verify your identity and address and, in some cases, the source of your funds and wealth. If you are completing your application online, we can with your consent, verify your identity and address electronically.

If the electronic method fails, we will require physical identification documents certified by a 'trusted referee' or verified by your financial advice provider or an NZ Funds employee. More information on this process is set out in the AML form on our website. We cannot process your application unless the AML/CFT requirements have been satisfied.

### Foreign Account Tax Compliance Act (FATCA)

If you are a US Person (that is, someone who is a United States citizen or tax resident, or a United States Green Card holder, or an entity owned or controlled by US persons) we may be required to provide information about your investment to Inland Revenue to comply with our obligations under the FATCA. Inland Revenue in turn may be required to pass this information to the United States Internal Revenue Service.

### Common Reporting Standard (CRS)

If you are tax resident in a country other than New Zealand, or an entity owned or controlled by non-New Zealand tax residents we may be required to provide information about your investment to Inland Revenue to comply with our obligations under the CRS regime. Inland Revenue in turn may be required to pass this information to the revenue authority of the country in which you are tax resident.

### Change of personal details

If you wish to change your personal details, please complete a Changes in Client Details form which is available from your financial advice provider or our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz).

## 16. Material contracts

### Trust Deed

The Trust Deed is an agreement between us and the Supervisor that sets out the rules for the management and administration of the Scheme and the Strategies. A copy of the Trust Deed is available on the scheme register at [disclose-register.companiesoffice.govt.nz](http://disclose-register.companiesoffice.govt.nz).

### Management agreement

We have a management agreement with the Supervisor that sets out the operational arrangements for the Scheme and the Strategies, including what information we have to report to the Supervisor, how the Strategies' bank accounts will be operated, and what records we have to keep.

## 17. More about market indices

More information about the market indices noted in the SIPO can be found on the web pages listed below:

Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD	<a href="http://www.bloomberg.com/quote/LGCPTRUU:IND">www.bloomberg.com/quote/LGCPTRUU:IND</a>
MSCI All Countries World Daily TR Net Local Currency	<a href="http://www.msci.com/acwi">www.msci.com/acwi</a>
S&P/ASX 200 Index Total Return	<a href="http://www.us.spindices.com/indices/equity/sp-asx-200">www.us.spindices.com/indices/equity/sp-asx-200</a>
S&P/NZX Bank Bills 90 Day Index Total Return	<a href="http://www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-bank-bills-90-day-index/#overview">www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-bank-bills-90-day-index/#overview</a>
S&P/ NZX Investment Grade Corporate Bond Index Total Return	<a href="http://www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-composite-investment-grade-bond-index/#overview">www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-composite-investment-grade-bond-index/#overview</a>
S&P/NZX 50 Portfolio Index Gross with Imputation	<a href="http://www.us.spindices.com/indices/equity/sp-nzx-50-portfolio-index">www.us.spindices.com/indices/equity/sp-nzx-50-portfolio-index</a>



## 18. Glossary

Term	Definition
Active management	A portfolio management approach where the investment manager makes specific investment decisions with the goal of outperforming a benchmark index or target return.
Alternative securities	Asset classes not usually accessed by retail investors, for example, private equity, venture capital, hedge funds, and digital assets (such as cryptocurrencies). These tend to be asset classes where valuation and liquidity may be uncertain and returns may be volatile. Includes derivatives on alternative securities.
Asset class	<p>These are the available asset classes that the Strategies may invest in depending on their investment mandate. The Strategies can purchase the assets either directly, or indirectly through derivatives. Not all Strategies can invest in all asset classes. The asset classes are:</p> <ul style="list-style-type: none"> <li>• Cash and cash equivalents</li> <li>• New Zealand fixed interest</li> <li>• International fixed interest</li> <li>• Australasian equities</li> <li>• International equities</li> <li>• Listed property</li> <li>• Commodities</li> <li>• Alternative securities</li> </ul> <p>The above asset classes are from the Financial Markets Conduct Regulations 2014 (Regulations), except for 'alternative securities' which falls under 'Other' in the Regulations. These are the same asset classes used in the Quarterly Fund Updates.</p>
Australian bonds	Debt securities issued in Australia and derivatives on Australian bonds. For regulatory and Quarterly Fund Update purposes, debt securities issued in Australia are classified as 'international fixed interest'.
Australasian shares/ equities	Shares listed on New Zealand or Australian stock exchanges and derivatives on New Zealand or Australian shares.
Cash and cash equivalents	Cash, or other assets that can be readily converted into cash, including bank term deposits and short term debt securities.
Commodities	A product which is, for example, agricultural, mineral or energy related, and is interchangeable with another product of the same type, and which may be bought or sold directly or indirectly through derivatives or an exchange traded fund.
Cryptocurrencies	Forms of currency that only exist digitally and that usually have no central issuing or regulating authority but instead use a decentralised system to record transactions and manage the issue of new units. Cryptocurrencies also include derivatives on cryptocurrencies. Examples of cryptocurrencies are Bitcoin and Ethereum.
Debt securities	Securities issued by an entity to enable it to borrow money. Debt securities cover a wide range of issuing entities and security types. Debt securities include (but are not limited to) corporate and government bonds, loans, floating rate securities and zero-coupon bonds. Includes derivatives on debt securities.
Derivatives	Financial instruments the value of which are derived from changes in the value of another asset or asset class (for example, a share market index, a commodity, a bond, or a currency). Examples of derivatives include futures, options, forwards, swaps and swaptions. Where an asset class is an authorised class, derivatives on that asset class are also permitted.
Digital assets	Anything that exists in a digital form which is self-contained, uniquely identifiable and has perceived value or the ability to be used (e.g. cryptocurrencies).
Growth assets	Investments where the return is expected to be made up predominantly of capital gains and losses over the investment period and/or investments where the expected yield or return on capital is relatively high. Shares are usually referred to as growth assets. Growth assets can include derivatives.



Term	Definition
Hedge funds	Alternative investment vehicles generally only available to institutional and other sophisticated investors. Hedge funds typically have an absolute performance objective. They can invest in a wide variety of assets and use non-traditional investment techniques (for example, short selling, leverage, arbitrage and derivatives).
Income assets	Investments where the return is expected to be made up predominantly of interest income. Cash and cash equivalents and debt securities are usually referred to as income assets. Income assets can include derivatives.
International bonds	Debt securities issued outside New Zealand and Australia, including derivatives on international bonds. For regulatory and Quarterly Fund Update purposes, all debt securities issued outside New Zealand are classified as 'international fixed interest'.
International shares/ equities	Shares listed on stock exchanges (other than New Zealand or Australian stock exchanges), including derivatives on international shares. International shares also include collective investment vehicles which invest in international shares including equity long/short hedge funds.
Investment Committee	The NZ Funds Investment Committee which is a sub-committee of the NZ Funds Board.
Listed property	Shares listed on stock exchanges which own or invest in property, buildings or land, and derivatives on listed property.
Net asset value	The value of the assets of a Strategy, less any liabilities.
New Zealand bonds	Debt securities issued in New Zealand and derivatives on New Zealand bonds. For regulatory and Quarterly Fund Update purposes, debt securities issued in New Zealand are classified as 'New Zealand fixed interest'.
NZ Funds	New Zealand Funds Management Limited.
Scheme	NZ Funds Managed Portfolio Service Part Two managed investment scheme.
Short position	An investment technique that seeks to profit from a fall in the price of a security.
Specialist investment managers	External managers selected by NZ Funds who may manage a portfolio of securities directly held by a wholesale trust or an underlying fund in which a wholesale trust invests and includes derivatives on specialist investment managers.
Supervisor	The New Zealand Guardian Trust Company Limited.
Term deposit	A type of deposit held at a bank or other financial institution where the money is locked in for a set period of time, and can not be withdrawn until the time is up without penalty.
Trust Deed	The trust deed for the Scheme dated 12 October 2016 (as amended from time to time).



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