

Other Material Information

NZ CORE EQUITY TRUST | 12 OCTOBER 2023



Smartshares Limited (**Smartshares**) has prepared this document to meet the requirements of section 57(1)(b)(ii) of the Financial Markets Conduct Act 2013 and clause 52 of schedule 4 of the Financial Markets Conduct Regulations 2014.

This document supplements the Product Disclosure Statement for the NZ Core Equity Trust (**Scheme**) and sets out important information about the Scheme.

The information in this document could change in the future. Please check the offer register at disclose-register.companiesoffice.govt.nz for any updates.

1. Risks

This section sets out a summary of the risks that we believe to be the most important, but there may be other risks that are relevant to your investment in the Scheme. You should seek advice from a financial advice provider before investing in the Scheme.

A. RISKS DESCRIBED IN THE PRODUCT DISCLOSURE STATEMENT

We consider that the risks set out below could be material to your investment. These risks are summarised in the Product Disclosure Statement for the Scheme.

Market risk

Market risk is the risk that there is a decline in the value of a market, or a sector of a market (such as a particular industry), which negatively affects the value of the financial products held by the Scheme, or the amount or frequency of distributions we receive from the issuers of those financial products.

Market risk can change for many reasons, including changes in investor confidence or perceptions of a market, changes in economic conditions, government regulations, natural disasters, and local and international political events.

Individual financial product risk

Individual financial product risk is the risk that a specific issuer is affected by adverse circumstances which causes a decline in the value of its financial products which are held by the Scheme, or the issuer's ability to pay distributions in relation to those financial products.

Liquidity risk

Liquidity risk is the risk that, due to market demand and supply factors, we are unable to buy or sell financial products for the Scheme in a timely manner or at fair value. Liquidity risk may negatively impact the value of the Scheme's investments, which could prevent the Scheme from meeting its investment objectives, or could prevent us from being able to redeem your investment in the Scheme.

B. RISKS NOT DESCRIBED IN THE PRODUCT DISCLOSURE STATEMENT

You should also be aware of the risks set out below, which are not described in the Product Disclosure Statement for the Scheme.

Investment platform provider risk

If you invest in the Scheme through an investment platform provider, you will have a beneficial interest in units, but will not be the legal unitholder. The investment platform provider will therefore be the only person entitled to exercise any rights (including the right to benefits and entitlements and voting rights) in relation to the units. We anticipate that the terms between you and the investment platform provider will provide that units held on your behalf will have all of the rights and entitlements described in the Product Disclosure Statement for the Scheme and set out in the Scheme's governing documents as if you were the legal holder. However, this is a matter between you and the investment platform provider and you should ensure that this is the case.

Operational risk

Operational risk is the risk that operational errors, including business interruptions arising through key personnel changes, human error, technology or infrastructure failure, and other external events, fraud or misconduct, may adversely impact on the operation and performance of the Scheme. We mitigate this risk through internal policies, procedures and controls, including a compliance programme. We also outsource some aspects of our operations to third-party providers and maintain insurance, subject to normal commercial insurance excesses.

Concentration risk

Concentration risk is the risk that the Scheme's investments are concentrated in a particular country, market, sector, asset class, or asset which may result in the Scheme being impacted by adverse events affecting a specific country, market, sector, asset class, or asset.

Third party risk

The Scheme relies on a number of outsource providers to provide services. The failure of a service provider to deliver such services (because of business interruption, external factors or otherwise) may adversely affect the operation and performance of the Scheme. We mitigate this risk through an outsource provider policy which requires us to conduct due diligence in relation to the selection of outsource providers and to monitor their performance on an on-going basis.

Regulatory and legal risk

Regulatory risk is the risk that the Scheme or its investments may be adversely affected by future changes in applicable laws, an incorrect interpretation of laws or regulations, or by decisions taken by regulatory enforcement agencies. Legal risk is the risk that we do not correctly document or comply with our legal obligations.

Tax risk

There is a risk that tax laws that apply to your interest in the Scheme, or the application, or interpretation of those laws could have an adverse effect on your returns or the value of your interest in the Scheme. In particular, there is a PIE tax status risk, which is the risk that the Scheme may lose its portfolio investment entity (**PIE**) status, which would likely affect the after-tax returns that you receive. We mitigate this risk by implementing processes that are designed to ensure that the Scheme complies with the PIE requirements. Please note that we have broad powers to take actions to ensure the Scheme remains eligible to be multi-rate PIEs. This includes, for example, the ability to refuse investment or to compulsorily withdraw all or part of your interest where continued investment may prejudice the Scheme's multi-rate PIE eligibility.

Derivatives risk

Derivatives are contracts between two parties that usually derive their value from the value of an underlying asset, rate or index. Derivatives may be used by the Scheme to gain exposure to financial products in which the investment manager wishes to invest, but is unable to purchase directly. The use of such products to gain exposure is often a leveraged investment, and may cause the Scheme to incur significant gains or losses in proportion to the value of the investment, thereby causing returns to become more volatile and increasing the risk of any loss. We mitigate this risk by setting mandates which materially constrain the ability for the Scheme to be leveraged.

ESG risk

Environmental, social and governance (**ESG**) risk is the risk a company or financial sector is negatively affected for ESG reasons. For example, a company's assets may become stranded as a result of climate change or due to regulatory action that limits the company's activities.

2. Material contracts

This section sets out the contracts that we consider to be material in relation to the Scheme.

Administration Services Agreement – BNP Paribas

There is an Administration Services Agreement between Smartshares and BNP Paribas Fund Services Australasia Pty Limited (**BNP Paribas**).

BNP Paribas is the Scheme's administration manager and unit registrar.

The Administration Services Agreement sets out the administration services that BNP Paribas has agreed to provide Smartshares, together with the performance standards BNP Paribas must comply with in providing the services.

Administration Services Agreement – NZX

There is an Administration Services Agreement between Smartshares and NZX Limited (**NZX**).

NZX is Smartshares' parent company.

The Administration Services Agreement sets out the administration services that NZX has agreed to provide Smartshares, together with the performance standards NZX must comply with in providing the services.

Investment Management Agreement

There is an Investment Management Agreement between Smartshares and DFA Australia Limited (**DFA**).

DFA is the Scheme's investment manager.

The Investment Management Agreement sets out DFA's duties and powers, together with the investment instructions for the Scheme (including investment style, authorised investments, and use of derivatives and cash).

Manager Reporting Agreement

There is a Manager Reporting Agreement between Smartshares and Public Trust.

Public Trust is the Scheme's supervisor.

The Manager Reporting Agreement sets out the arrangements between Smartshares and Public Trust in relation to certain reporting and other operational matters (including disclosure documents and the operation of bank accounts) relating to the Scheme.

Master Trust Deed

The Scheme is governed by the Master Trust Deed between Smartshares and Public Trust. A copy of the Master Trust Deed is available on the scheme register at disclose-register.companiesoffice.govt.nz.

3. Market index

This section sets out where further information about the S&P/NZX 50 Portfolio Index (which is the market index referred to in the fund updates and Statement of Investment Policy and Objectives for the Scheme) may be obtained.

The returns for the S&P/NZX 50 Portfolio Index are calculated on a net total return basis. Regular cash dividends are reinvested at the close on the ex-dividend date, after the deduction of applicable imputation credits and withholding taxes.

Further information about the S&P/NZX 50 Portfolio Index can be obtained at us.spindices.com/indices/equity/sp-nzx-50-portfolio-index.

The S&P/NZX 50 Portfolio Index became the market index for the Scheme on 24 June 2016.

4. Trade allocation policy

This section sets out Smartshares' trade allocation practices for the Scheme.

Smartshares will ensure that no investor receives preferential treatment when allocating trades.

Smartshares will allocate trades applying the following principles:

- all proposed trades must be pre-allocated;
- actual allocation must follow the pre-trade allocation;
- in the event that a trade is not fully allocated, actual allocation must be pro-rated based on the pre-trade allocation; and
- no fund will receive preferential allocation treatment over another.

Smartshares will consider an external investment manager's trade allocation policy prior to appointing the external investment manager and at least annually after that.

5. Trade execution policy

This section sets out Smartshares' trade execution practices for the Scheme.

Smartshares will act in the best interests of investors and take reasonable steps to achieve the best possible results when executing trades.

Smartshares will execute trades using the following criteria:

- price;
- transaction cost;
- speed of execution;
- liquidity;
- size and nature of the trade;
- counterparty credit rating and quality;
- any other relevant considerations; and
- legal and regulatory restrictions.

Smartshares will select intermediaries to its broker panel and counterparties for derivatives and foreign exchange transactions in accordance with its Broker and Counterparty Selection Policy.

Smartshares will consider an external investment manager's trade execution policy prior to appointing the external investment manager and at least annually after that.

6. Voting policy

This section sets out how the Scheme exercises its voting power in respect of assets held by the Scheme.

DFA Australia Limited (**DFA**) is appointed by Smartshares as the investment manager of the Scheme. DFA exercises the voting power in respect of the Scheme's securities in accordance with DFA's Proxy Voting Policy and Sustainability Voting Guidelines.

DFA's Proxy Voting Policy is available at au.dimensions.com/about-us/investment-stewardship.

DFA's Sustainability Voting Guidelines generally support shareholder proposals related to climate change and other sustainability issues (e.g. human rights and diversity proposals), while remaining the same as the standard Proxy Voting Policy on issues such as remuneration or director elections.

DFA may engage a third-party vendor to perform proxy research services, as well as undertaking its own research and engaging directly with companies the Scheme invests into. As a result of this, DFA may change its voting intention relative to the Sustainability Voting Guidelines from time to time.

7. Asset valuation and unit pricing methodology

This section describes the asset valuation and unit pricing methodology applied to the Scheme.

The value of the assets held by the Scheme and the net asset value of the Scheme will be determined in accordance with the Scheme's governing documents and on a consistently applied basis.

A. ASSET VALUATION

The assets held by the Scheme that are quoted on a financial product market are valued for each business day based on:

- the last quoted sale price on the day for which the valuation is being made; or
- if no sale price was quoted for that day, the last bid or buying price on that day; or
- at the option of Smartshares, the amount certified by a firm of stockbrokers or other dealers in the relevant market.

Smartshares may use alternative valuation methods (including for assets that are quoted on a financial product market), provided the valuation method used is applied on a consistent basis over time. Smartshares must consult with the Scheme's supervisor prior to using an alternative valuation method.

B. UNIT PRICING

The unit price for the Scheme is calculated for each business day by dividing the net asset value of the Scheme by the number of units then on issue in the Scheme.

The net asset value of the Scheme is determined for each business day using the formula set out in the Scheme's governing documents.

Unit prices are rounded down to four decimal places.

8. Liquidity risk management policy

This section sets out the liquidity risk management tools that Smartshares may apply in relation to the Scheme.

The consideration of the liquidity of individual assets and asset classes and of a fund's portfolio is an integral and routine part of Smartshares' investment management process. Fund liquidity is monitored daily, and may be monitored more frequently in times of extreme market uncertainty or volatility.

Smartshares has liquidity management tools in place that can be deployed for contingent use should liquidity become an issue for a given fund. They are designed to maintain equity between all investors in the funds and are permitted under the Scheme's Trust Deed.

Smartshares' primary liquidity management tools for the Scheme include:

Redemption suspensions

Smartshares can give notice to investors and the Supervisor to suspend the operation of redemption requests for a fund if it determines that redemption is either:

- not practicable;
- materially prejudicial to the general interests of all investors;
- a threat to the fund's PIE eligibility; or
- not desirable for the protection of the fund.

Smartshares may also suspend redemption requests, with notice to the Supervisor, if redemption request(s) are received in respect of a fund within a 3-month period that relate to more than 10% of the units on issue in the fund, and doing so is in the best interests of all investors.

Redemption by instalments

Smartshares can redeem by instalments if redemptions request(s) are received in respect of a fund within a 3-month period that relate to more than 2.5% of the units on issue in the fund, and Smartshares considers that it is in the general interests of all investors in the fund.

Side-pocketing

Smartshares may quarantine particular investments in a fund if it considers that to do so is in the best interests of all investors. Smartshares must also obtain the prior written consent of the Supervisor. If Smartshares side-pockets a particular investment or liability, members will be issued fund units that relate to the side-pocketed investment or liability on a pro rata basis. This process does not create a new fund.

In-specie redemption

Smartshares can ask the Supervisor to transfer assets to an investor or, with the Supervisor's consent, to hold assets on trust for an investor rather than pay cash on the redemption of units.