



ASIA PACIFIC FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the Asia Pacific Fund

ASIA PACIFIC FUND

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ASIA PACIFIC FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

ASIA PACIFIC FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The Asia Pacific Fund (the 'Fund') was created by an establishment deed dated 10 July 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

ASIA PACIFIC FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|-----------------------|---------------------|
| INCOME | | | |
| Dividend income | | 2,822 | 1,835 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (4,790) | 7,176 |
| Foreign exchange gain | | <u>8</u> | <u>-</u> |
| Total income | | <u>(1,960)</u> | <u>9,011</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (455) | (304) |
| Foreign exchange loss | | <u>-</u> | <u>(111)</u> |
| Total expenses | | <u>(455)</u> | <u>(415)</u> |
| (Loss)/profit before tax | | (2,415) | 8,596 |
| Income tax expense | 1 | <u>(1,274)</u> | <u>(854)</u> |
| (Loss)/profit after tax | | (3,689) | 7,742 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive (loss)/income | | <u>(3,689)</u> | <u>7,742</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted (losses)/earnings per unit (cents per unit) | 3 | <u>(7.23)</u> | <u>21.94</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

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STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|-----------------------|----------------------|
| Unitholders' funds at the beginning of the year | | 92,784 | 59,309 |
| Total comprehensive (loss)/income for the year | | <u>(3,689)</u> | <u>7,742</u> |
| Subscriptions from unitholders | 5 | 24,400 | 26,356 |
| Redemptions by unitholders | 5 | (2,547) | - |
| Distributions to unitholders | 4 | <u>(861)</u> | <u>(623)</u> |
| | | <u>20,992</u> | <u>25,733</u> |
| Unitholders' funds at the end of the year | | <u><u>110,087</u></u> | <u><u>92,784</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

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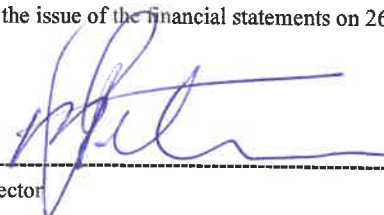
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 1,829 | 1,364 |
| Investments in equity securities at fair value through profit or loss | | <u>108,977</u> | <u>93,044</u> |
| TOTAL ASSETS | | <u>110,806</u> | <u>94,408</u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (59) | (3) |
| Taxation payable | | (548) | (395) |
| Funds held for unit purchases | | (64) | (174) |
| Unsettled purchases of investments | | <u>(48)</u> | <u>(1,052)</u> |
| TOTAL LIABILITIES | | <u>(719)</u> | <u>(1,624)</u> |
| UNITHOLDERS' FUNDS | | <u>110,087</u> | <u>92,784</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>110,806</u> | <u>94,408</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

ASIA PACIFIC FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|----------------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 2,398 | 1,560 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (399) | (303) |
| Taxation paid | | <u>(697)</u> | <u>(335)</u> |
| Net cash flows from operating activities | | <u>1,302</u> | <u>922</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Sale of investments | | 4 | - |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | <u>(1,687)</u> | <u>(1,768)</u> |
| Net cash flows from investing activities | | <u>(1,683)</u> | <u>(1,768)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 1,711 | 2,077 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (4) | - |
| Distributions paid to unitholders | | <u>(861)</u> | <u>(623)</u> |
| Net cash flows from financing activities | | <u>846</u> | <u>1,454</u> |
| Net increase in cash and cash equivalents | | 465 | 608 |
| Cash and cash equivalents at the beginning of the year | | <u>1,364</u> | <u>756</u> |
| Cash and cash equivalents at the end of the year | | <u>1,829</u> | <u>1,364</u> |
| Reconciliation of (loss)/profit after tax to net cash flows from operating activities | | | |
| (Loss)/profit after tax | | (3,689) | 7,742 |
| Net changes in fair value of financial assets at fair value through profit or loss | | 4,790 | (7,176) |
| Foreign exchange (gain)/loss | | (8) | 111 |
| Increase in taxation payable | | 153 | 244 |
| Increase in fund expenses payable | | <u>56</u> | <u>1</u> |
| Net cash flows from operating activities | | <u>1,302</u> | <u>922</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

ASIA PACIFIC FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The Asia Pacific Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 10 July 2015 and commenced operations on 29 July 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that invests in the Vanguard FTSE Pacific ETF (the 'Underlying Fund'), which tracks the FTSE Developed Asia Pacific All Cap Index (the 'Underlying Index'). The Underlying Fund invests in securities contained in the Underlying Index broadly in proportion to the weightings of the Underlying Index. Investments are valued at fair value according to last traded market prices on the New York Stock Exchange Area on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for units in the Underlying Fund and a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on investments in securities subject to the Fair Dividend Rate method ('FDR') after the deduction of management fees. FDR income is based on the market value of the security. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in the Underlying Fund being the Vanguard FTSE Pacific ETF. The Fund receives all of its dividend income from this investment.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

ASIA PACIFIC FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|----------------|--------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (1,274) | (854) |
| Total tax expense | <u>(1,274)</u> | <u>(854)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|-----------------------|---------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| (Loss)/profit before tax | (2,415) | 8,596 |
| Income tax using the statutory income tax rate of 28% | 676 | (2,407) |
| Net changes in fair value of financial assets and financial liabilities | (1,339) | 2,008 |
| Non-taxable income | 799 | 485 |
| Tax on securities subject to FDR | (1,410) | (940) |
| | <u>(1,274)</u> | <u>(854)</u> |
| Income tax expense as per Statement of Comprehensive Income | <u>(1,274)</u> | <u>(854)</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 1,334 | 818 |

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|----------------------------------------------------------------------|----------------------|---------------------|
| | 2019 | 2018 |
| (Loss)/profit after tax | (3,689) | 7,742 |
| Weighted average number of units ('000) | <u>51,045</u> | <u>35,283</u> |
| Basic and diluted (losses)/earnings per unit (cents per unit) | <u>(7.23)</u> | <u>21.94</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 1.34 | - | 443 |
| November 2017 (paid December 2017) | 31/03/2018 | 0.51 | - | 180 |
| May 2018 (paid June 2018) | 31/03/2019 | 1.29 | 603 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 0.49 | <u>258</u> | <u>-</u> |
| | | | <u>861</u> | <u>623</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 56,400,000 units on issue (2018: 45,476,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 12,154,000 (2018: 13,025,000) for total value of \$24,400,000 (2018: \$26,356,000).

The number of units redeemed during the year ended 31 March 2019 was 1,230,000 (2018: nil) for total value of \$2,547,000 (2018: \$nil).

| | | |
|----------------------------------------------|----------------------|----------------------|
| | 2019 | 2018 |
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 45,476 | 32,451 |
| Subscriptions received during the year | 12,154 | 13,025 |
| Redemptions made during the year | <u>(1,230)</u> | <u>-</u> |
| Units on issue at the end of the year | <u>56,400</u> | <u>45,476</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$1.95190 (2018: \$2.04028). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

ASIA PACIFIC FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme (“SLI”), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 51,539,587 units (2018: 43,308,624) valued at \$100,844,000 (2018: \$87,091,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$803,000 to SLI for the year ended 31 March 2019 (2018: \$603,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$224,000. Total net management fees from 1 October to 31 March 2019 amounted to \$176,000 with \$30,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$304,000 with outstanding management fees due to the Manager of: \$3,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$1,000 (2018: \$4,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$13,000 (2018: \$9,000)

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund’s activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

The Fund's market price risk is affected by actual changes in market prices. As the Fund invests in an Underlying Fund which tracks an Underlying Index, any change in the Underlying Index will result in a corresponding change in the assets at fair value through profit or loss.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$10,897,000 (2018: \$9,304,000).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance \$'000 | 2019 Credit rating | Balance \$'000 | 2018 Credit rating |
|-------------|---------------------------------|-----------------------------------------------|---------------------------------|-----------------------------------------------|
| ANZ | 64 | AA- | 174 | AA- |
| BNP Paribas | - | A+ | - | A |
| Westpac | <u>1,765</u> | AA- | <u>1,190</u> | AA- |
| | <u>1,829</u> | | <u>1,364</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investment in the Vanguard FTSE Pacific ETF is considered readily realisable, as it is quoted on the New York Stock Exchange Arca. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning units in the Underlying Fund. Liquidity risk for the Fund is therefore low.

7d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in US dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the US dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$10,893,000 (2018: \$9,199,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------|------------------------------|------------------------------|
| Investment in equity securities | 108,977 | 93,044 |
| Unsettled purchase of investments | (48) | (1,052) |

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

ASIA PACIFIC FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of Asia Pacific Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Asia Pacific Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$1,108,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

ASIA PACIFIC FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 98.3% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

ASIA PACIFIC FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



AUSTRALIAN DIVIDEND FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the Australian Dividend Fund

AUSTRALIAN DIVIDEND FUND

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AUSTRALIAN DIVIDEND FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Level 5, Chartered Accountants House
50- 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

AUSTRALIAN DIVIDEND FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The Australian Dividend Fund (the 'Fund') was created by an establishment deed dated 19 March 2015 as amended on 5 June 2015 and amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:
Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

AUSTRALIAN DIVIDEND FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|---------------------|-----------------------|
| INCOME | | | |
| Dividend income | | 2,145 | 4,011 |
| Net changes in fair value of financial assets at fair value through profit or loss | | <u>329</u> | <u>(6,359)</u> |
| Total income | | <u>2,474</u> | <u>(2,348)</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (134) | (375) |
| Foreign exchange loss | | (14) | (283) |
| Miscellaneous expenses | | <u>(8)</u> | <u>(17)</u> |
| Total expenses | | <u>(156)</u> | <u>(675)</u> |
| Profit/(loss) before tax | | 2,318 | (3,023) |
| Income tax expense | 1 | <u>(316)</u> | <u>(941)</u> |
| Profit/(loss) after tax | | 2,002 | (3,964) |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income/(loss) | | <u>2,002</u> | <u>(3,964)</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings/(losses) per unit (cents per unit) | 3 | <u>13.04</u> | <u>(9.96)</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN DIVIDEND FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|-----------------------------|-----------------------------|
| Unitholders' funds at the beginning of the year | | 28,466 | 70,465 |
| Total comprehensive income/(loss) for the year | | <u>2,002</u> | <u>(3,964)</u> |
| Subscriptions from unitholders | 5 | 2,687 | 4,935 |
| Redemptions by unitholders | 5 | (7,444) | (40,596) |
| Distributions to unitholders | 4 | <u>(907)</u> | <u>(2,374)</u> |
| | | <u>(5,664)</u> | <u>(38,035)</u> |
| Unitholders' funds at the end of the year | | <u><u>24,804</u></u> | <u><u>28,466</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN DIVIDEND FUND


STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 456 | 746 |
| Receivables | | 426 | 557 |
| Investments in equity securities at fair value through profit or loss | | 24,103 | 27,872 |
| Taxation receivable | | <u>23</u> | <u>-</u> |
| TOTAL ASSETS | | <u>25,008</u> | <u>29,175</u> |
| LIABILITIES | | | |
| Bank overdraft | | (17) | - |
| Fund expenses payable | 6 | (20) | (1) |
| Taxation payable | | - | (474) |
| Deferred tax payable | | (120) | (156) |
| Funds held for unit purchases | | <u>(47)</u> | <u>(78)</u> |
| TOTAL LIABILITIES | | <u>(204)</u> | <u>(709)</u> |
| UNITHOLDERS' FUNDS | | <u>24,804</u> | <u>28,466</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>25,008</u> | <u>29,175</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN DIVIDEND FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|----------------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 2,269 | 3,984 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (115) | (377) |
| Taxation paid | | (842) | (594) |
| Miscellaneous expenses paid | | (8) | (17) |
| Net cash flows from operating activities | | <u>1,304</u> | <u>2,996</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 15,737 | 34,381 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | (17,468) | (36,318) |
| Net cash flows from investing activities | | <u>(1,731)</u> | <u>(1,937)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 1,079 | 1,682 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (52) | (765) |
| Distributions paid to unitholders | | (907) | (2,374) |
| Net cash flows from financing activities | | <u>120</u> | <u>(1,457)</u> |
| Net decrease in cash and cash equivalents | | (307) | (398) |
| Cash and cash equivalents at the beginning of the year | | 746 | 1,174 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | - | (30) |
| Cash and cash equivalents at the end of the year | | <u>439</u> | <u>746</u> |
| Reconciliation of profit/(loss) after tax to net cash flows from operating activities | | | |
| Profit/(loss) after tax | | 2,002 | (3,964) |
| Net changes in fair value of financial assets at fair value through profit or loss | | (329) | 6,359 |
| Foreign exchange loss | | 14 | 283 |
| Increase in taxation receivable | | (23) | - |
| (Decrease)/increase in taxation payable | | (474) | 242 |
| (Decrease)/increase in deferred tax liability | | (36) | 65 |
| Increase/(decrease) in fund expenses payable | | 19 | (2) |
| Decrease in receivables | | 131 | 13 |
| Net cash flows from operating activities | | <u>1,304</u> | <u>2,996</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The Australian Dividend Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 1 December 2014 and commenced operations on 16 December 2014.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that tracks the S&P/ASX Dividend Opportunities Index (the 'Index'). As prescribed by the Trust Deed, the Fund invests in the securities included in the Index broadly in proportion to the weightings of the Index. Investments are valued at fair value according to last traded market prices on the Australian Securities Exchange on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

AUSTRALIAN DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

AUSTRALIAN DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from investments in securities subject to the Fair Dividend Rate method ('FDR')) from its investments in securities after the deduction of management fees. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. The Fund is able to utilise imputation credits and foreign withholding tax credits when they are available. The Fund pays tax to the extent that the imputation credits and foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date. The temporary differences relate to accrued dividends.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in Australian equities. The Fund receives all of its income from its Australian equity investments.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

AUSTRALIAN DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (427) | (877) |
| Prior period adjustment | 75 | 1 |
| Deferred tax movement | <u>36</u> | <u>(65)</u> |
| Total tax expense | <u>(316)</u> | <u>(941)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit/(loss) before tax | <u>2,318</u> | <u>(3,023)</u> |
| Income tax using the statutory income tax rate of 28% | (649) | 846 |
| Net changes in fair value of financial assets and financial liabilities | 86 | (1,797) |
| Non-taxable income | 180 | (46) |
| Tax on securities subject to FDR | (18) | (54) |
| Gross up of imputation credits | <u>(4)</u> | <u>(42)</u> |
| | (405) | (1,093) |
| Less imputation credits and other tax credits | 14 | 151 |
| Prior period adjustment | <u>75</u> | <u>1</u> |
| Income tax expense as per Statement of Comprehensive Income | <u>(316)</u> | <u>(941)</u> |

Deferred tax

| | 2019 | 2018 |
|-------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Opening balance | (156) | (91) |
| Current period movement | <u>36</u> | <u>(65)</u> |
| Closing balance | <u>(120)</u> | <u>(156)</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 752 | 671 |

AUSTRALIAN DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|----------------------------------------------------------------------|---------------------|----------------------|
| | 2019 | 2018 |
| Profit/(loss) after tax | 2,002 | (3,964) |
| Weighted average number of units ('000) | <u>15,357</u> | <u>39,812</u> |
| Basic and diluted earnings/(losses) per unit (cents per unit) | <u>13.04</u> | <u>(9.96)</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 3.22 | - | 1,326 |
| November 2017 (paid December 2017) | 31/03/2018 | 2.47 | - | 1,048 |
| May 2018 (paid June 2018) | 31/03/2019 | 2.89 | 515 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 2.71 | <u>392</u> | <u>-</u> |
| | | | <u>907</u> | <u>2,374</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 15,304,000 units on issue (2018: 17,929,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 1,750,000 (2018: 2,875,000) for total value of \$2,687,000 (2018: \$4,935,000).

The number of units redeemed during the year ended 31 March 2019 was 4,375,000 (2018: 24,736,000) for total value of \$7,444,000 (2018: \$40,596,000).

AUSTRALIAN DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

5. UNITHOLDERS' FUNDS (Continued)

| | 2019 | 2018 |
|----------------------------------------------|----------------------|----------------------|
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 17,929 | 39,790 |
| Subscriptions received during the year | 1,750 | 2,875 |
| Redemptions made during the year | <u>(4,375)</u> | <u>(24,736)</u> |
| Units on issue at the end of the year | <u>15,304</u> | <u>17,929</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$1.62075 (2018: \$1.58771). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 10,528,465 units (2018: 13,992,735) valued at \$16,909,000 (2018: \$22,187,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$666,000 to SLI for the year ended 31 March 2019 (2018: \$2,209,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$73,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$17,000, with \$2,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$375,000 with outstanding management fees due to the Manager of \$1,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$nil (2018: \$3,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$6,000 (2018: \$12,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

AUSTRALIAN DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

Because the Fund tracks an Australian equity index and is fully invested in the index's underlying Australian equity securities, the value of the Fund will move up and down with the Australian market.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$2,410,000 (2018: \$2,787,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-------------|-------------------|---------------|-------------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 47 | AA- | 78 | AA- |
| BNP Paribas | - | A+ | 7 | A |
| Westpac | <u>409</u> | AA- | <u>661</u> | AA- |
| | <u>456</u> | | <u>746</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investments in listed securities are considered readily realisable, as they are quoted on the Australian Securities Exchange. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning the proportionate number of underlying securities in return for the units. Liquidity risk for the Fund is therefore low.

AUSTRALIAN DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in Australian dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the Australian dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$2,451,000 (2018: \$2,844,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|-----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Australian dollar cash held (NZD) | (17) | 7 |
| Receivables | 426 | 557 |
| Investment in equity securities | 24,103 | 27,872 |

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of Australian Dividend Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Australian Dividend Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$250,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

AUSTRALIAN DIVIDEND FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 96.4% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

AUSTRALIAN DIVIDEND FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington
26 June 2019



AUSTRALIAN FINANCIALS FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the Australian Financials Fund

AUSTRALIAN FINANCIALS FUND

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AUSTRALIAN FINANCIALS FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80
Email: smartshares@smartshares.co.nz
Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

AUSTRALIAN FINANCIALS FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The Australian Financials Fund (the 'Fund') was created by an establishment deed dated 19 March 2015 as amended on 5 June 2015 and amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

AUSTRALIAN FINANCIALS FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|---------------------|------------------------|
| INCOME | | | |
| Dividend income | | 1,513 | 1,239 |
| Net changes in fair value of financial assets at fair value through profit or loss | | <u>(790)</u> | <u>(3,799)</u> |
| Total income | | <u>723</u> | <u>(2,560)</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (138) | (124) |
| Foreign exchange loss | | <u>(21)</u> | <u>(67)</u> |
| Total expenses | | <u>(159)</u> | <u>(191)</u> |
| Profit/(loss) before tax | | 564 | (2,751) |
| Income tax expense | 1 | <u>(342)</u> | <u>(271)</u> |
| Profit/(loss) after tax | | 222 | (3,022) |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income/(loss) | | <u>222</u> | <u>(3,022)</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings/(losses) per unit (cents per unit) | 3 | <u>6.43</u> | <u>(101.44)</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN FINANCIALS FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|----------------------|----------------------|
| Unitholders' funds at the beginning of the year | | 30,436 | 23,522 |
| Total comprehensive income/(loss) for the year | | <u>222</u> | <u>(3,022)</u> |
| Subscriptions from unitholders | 5 | 3,552 | 10,808 |
| Redemptions by unitholders | 5 | (9,980) | - |
| Distributions to unitholders | 4 | <u>(913)</u> | <u>(872)</u> |
| | | <u>(7,341)</u> | <u>9,936</u> |
| Unitholders' funds at the end of the year | | <u><u>23,317</u></u> | <u><u>30,436</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN FINANCIALS FUND

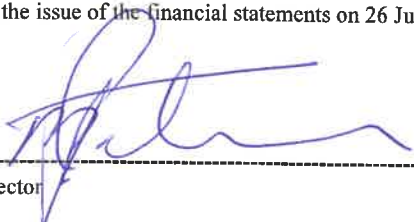
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 373 | 358 |
| Receivables | | 33 | 21 |
| Investments in equity securities at fair value through profit or loss | | <u>23,141</u> | <u>30,212</u> |
| TOTAL ASSETS | | <u>23,547</u> | <u>30,591</u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (24) | (1) |
| Taxation payable | | (171) | (138) |
| Deferred tax payable | | (11) | (6) |
| Funds held for unit purchases | | <u>(24)</u> | <u>(10)</u> |
| TOTAL LIABILITIES | | <u>(230)</u> | <u>(155)</u> |
| UNITHOLDERS' FUNDS | | <u>23,317</u> | <u>30,436</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>23,547</u> | <u>30,591</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN FINANCIALS FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|----------------------------------------------------------------------------------------------|------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 1,501 | 1,387 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (115) | (124) |
| Taxation paid | | <u>(304)</u> | <u>(221)</u> |
| Net cash flows from operating activities | | <u>1,082</u> | <u>1,042</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 222 | 426 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | <u>(472)</u> | <u>(898)</u> |
| Net cash flows from investing activities | | <u>(250)</u> | <u>(472)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 277 | 500 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (181) | - |
| Distributions paid to unitholders | | <u>(913)</u> | <u>(872)</u> |
| Net cash flows from financing activities | | <u>(817)</u> | <u>(372)</u> |
| Net increase in cash and cash equivalents | | 15 | 198 |
| Cash and cash equivalents at the beginning of the year | | 358 | 184 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | <u>-</u> | <u>(24)</u> |
| Cash and cash equivalents at the end of the year | | <u>373</u> | <u>358</u> |
| Reconciliation of profit/(loss) after tax to net cash flows from operating activities | | | |
| Profit/(loss) after tax | | 222 | (3,022) |
| Net changes in fair value of financial assets at fair value through profit or loss | | 790 | 3,799 |
| Foreign exchange loss | | 21 | 67 |
| Increase in taxation payable | | 33 | 86 |
| Decrease in deferred tax liability | | 5 | (36) |
| Increase in fund expenses payable | | 23 | - |
| (Increase)/decrease in receivables | | <u>(12)</u> | <u>148</u> |
| Net cash flows from operating activities | | <u>1,082</u> | <u>1,042</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN FINANCIALS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The Australian Financials Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 19 March 2015 and commenced operations on 7 April 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that tracks the S&P/ASX 200 Financials Ex-A-REIT Index (the 'Index'). As prescribed by the Trust Deed, the Fund invests in the securities included in the Index broadly in proportion to the weightings of the Index. Investments are valued at fair value according to last traded market prices on the Australian Securities Exchange on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

AUSTRALIAN FINANCIALS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of February and August each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

AUSTRALIAN FINANCIALS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from investments in securities subject to the Fair Dividend Rate method ('FDR')) from its investments in securities after the deduction of management fees. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. The Fund is able to utilise imputation credits and foreign withholding tax credits when they are available. The Fund pays tax to the extent that the imputation credits and foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date. The temporary differences relate to accrued dividends.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in Australian equities. The Fund receives all of its income from its Australian equity investments.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

There are a number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, as they were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

AUSTRALIAN FINANCIALS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (337) | (308) |
| Prior period adjustment | - | 1 |
| Deferred tax movement | <u>(5)</u> | <u>36</u> |
| Total tax expense | <u>(342)</u> | <u>(271)</u> |

The prima facie income tax expense on profit/(loss) before tax reconciles to the income tax expense in the financial statements as follows:

Income tax expense

| | 2019 | 2018 |
|-------------------------------------------------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Profit/(loss) before tax | <u>564</u> | <u>(2,751)</u> |
| Income tax using the statutory income tax rate of 28% | (158) | 770 |
| Net changes in fair value of financial assets and financial liabilities | (221) | (1,064) |
| Non-taxable income | 1 | (12) |
| Tax on securities subject to FDR | (4) | (4) |
| Gross up of imputation credits | <u>(16)</u> | <u>(15)</u> |
| | (398) | (325) |
| Less imputation credits and other tax credits | 56 | 53 |
| Prior period adjustment | <u>-</u> | <u>1</u> |
| Income tax expense as per Statement of Comprehensive Income | <u>(342)</u> | <u>(271)</u> |

Deferred tax

| | 2019 | 2018 |
|-------------------------|--------------------|-------------------|
| | \$'000 | \$'000 |
| Opening balance | (6) | (42) |
| Current period movement | <u>(5)</u> | <u>36</u> |
| Closing balance | <u>(11)</u> | <u>(6)</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 204 | 166 |

AUSTRALIAN FINANCIALS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|----------------------------------------------------------------------|--------------------|------------------------|
| | 2019 | 2018 |
| Profit/(loss) after tax | 222 | (3,022) |
| Weighted average number of units ('000) | <u>3,453</u> | <u>2,979</u> |
| Basic and diluted earnings/(losses) per unit (cents per unit) | <u>6.43</u> | <u>(101.44)</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| August 2017 (paid September 2017) | 31/03/2018 | 15.04 | - | 431 |
| February 2018 (paid March 2018) | 31/03/2018 | 14.76 | - | 441 |
| August 2018 (paid September 2018) | 31/03/2019 | 12.26 | 376 | - |
| February 2019 (paid March 2019) | 31/03/2019 | 16.19 | <u>537</u> | <u>-</u> |
| | | | <u>913</u> | <u>872</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 3,415,000 units on issue (2018: 4,190,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 500,000 (2018: 1,403,000) for total value of \$3,552,000 (2018: \$10,808,000).

The number of units redeemed during the year ended 31 March 2019 was 1,275,000 (2018: nil) for total value of \$9,980,000 (2018: \$nil).

AUSTRALIAN FINANCIALS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

5. UNITHOLDERS' FUNDS (Continued)

| | 2019 '000 | 2018 '000 |
|----------------------------------------------|---------------------|---------------------|
| Movement in the number of units | | |
| Balance at the beginning of the year | 4,190 | 2,787 |
| Subscriptions received during the year | 500 | 1,403 |
| Redemptions made during the year | <u>(1,275)</u> | <u>-</u> |
| Units on issue at the end of the year | <u>3,415</u> | <u>4,190</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$6.82782 (2018: \$7.26396). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 3,050,682 units (2018: 3,969,012) valued at \$20,838,000 (2018: \$28,790,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$817,000 to SLI for the year ended 31 March 2019 (2018: \$819,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$76,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$21,000, with \$3,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$124,000 with outstanding management fees due to the Manager of \$1,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$nil (2018: \$1,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$6,000 (2018: \$5,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

AUSTRALIAN FINANCIALS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

Because the Fund tracks an Australian equity index and is fully invested in the index's underlying Australian equity securities, the value of the Fund will move up and down with the Australian market.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$2,314,000 (2018: \$3,021,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance \$'000 | 2019 Credit rating | Balance \$'000 | 2018 Credit rating |
|-------------|-------------------|--------------------------|-------------------|--------------------------|
| ANZ | 24 | AA- | 10 | AA- |
| BNP Paribas | - | A+ | 2 | A |
| Westpac | 349 | AA- | 346 | AA- |
| | <u>373</u> | | <u>358</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investments in listed securities are considered readily realisable, as they are quoted on the Australian Securities Exchange. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning the proportionate number of underlying securities in return for the units. Liquidity risk for the Fund is therefore low.

AUSTRALIAN FINANCIALS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in Australian dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the Australian dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$2,317,000 (2018: \$3,023,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|-----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Australian dollar cash held (NZD) | - | 1 |
| Receivables | 33 | 21 |
| Investment in equity securities | 23,141 | 30,212 |

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of Australian Financials Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Australian Financials Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$235,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

AUSTRALIAN FINANCIALS FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 98.3% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

AUSTRALIAN FINANCIALS FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



AUSTRALIAN MID CAP FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the Australian Mid Cap Fund

AUSTRALIAN MID CAP FUND

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AUSTRALIAN MID CAP FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

AUSTRALIAN MID CAP FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The Australian Mid Cap Fund (the 'Fund') was created by an establishment deed dated 9 September 2016 between the Manager and Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

AUSTRALIAN MID CAP FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|---------------------|----------------------|
| INCOME | | | |
| Dividend income | | 4,172 | 4,283 |
| Net changes in fair value of financial assets at fair value through profit or loss | | <u>(1,040)</u> | <u>6,440</u> |
| Total income | | <u>3,132</u> | <u>10,723</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (823) | (806) |
| Foreign exchange loss | | (36) | (4) |
| Interest expense | | - | (1) |
| Miscellaneous expenses | | <u>(15)</u> | <u>(10)</u> |
| Total expenses | | <u>(874)</u> | <u>(821)</u> |
| Profit before tax | | 2,258 | 9,902 |
| Income tax expense | 1 | <u>(826)</u> | <u>(1,064)</u> |
| Profit after tax | | 1,432 | 8,838 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>1,432</u> | <u>8,838</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>9.07</u> | <u>54.53</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN MID CAP FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|------------------------------|------------------------------|
| Unitholders' funds at the beginning of the year | | 112,760 | 96,264 |
| Total comprehensive income for the year | | <u>1,432</u> | <u>8,838</u> |
| Subscriptions from unitholders | 5 | 8,527 | 9,989 |
| Redemptions by unitholders | 5 | (12,623) | (522) |
| Distributions to unitholders | 4 | <u>(2,008)</u> | <u>(1,809)</u> |
| | | <u>(6,104)</u> | <u>7,658</u> |
| Unitholders' funds at the end of the year | | <u><u>108,088</u></u> | <u><u>112,760</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN MID CAP FUND

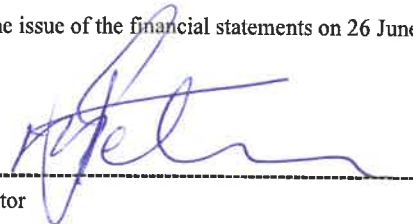
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 1,867 | 1,918 |
| Receivables | | 654 | 543 |
| Investments in equity securities at fair value through profit or loss | | <u>106,381</u> | <u>111,412</u> |
| TOTAL ASSETS | | <u>108,902</u> | <u>113,873</u> |
| LIABILITIES | | | |
| Bank overdraft | | (24) | - |
| Fund expenses payable | 6 | (98) | (7) |
| Taxation payable | | (552) | (910) |
| Deferred tax payable | | (116) | (143) |
| Distribution payable to unitholders | 4 | (1) | (1) |
| Funds held for unit purchases | | <u>(23)</u> | <u>(52)</u> |
| TOTAL LIABILITIES | | <u>(814)</u> | <u>(1,113)</u> |
| UNITHOLDERS' FUNDS | | <u>108,088</u> | <u>112,760</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>108,902</u> | <u>113,873</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN MID CAP FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 3,953 | 4,192 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (732) | (805) |
| Taxation paid | | (1,103) | (278) |
| Interest paid | | - | (1) |
| Miscellaneous expenses paid | | (15) | (10) |
| Net cash flows from operating activities | | <u>2,103</u> | <u>3,098</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 18,268 | 19,918 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | (20,366) | (23,536) |
| Net repayments to the Manager | | - | (1) |
| Net cash flows from investing activities | | <u>(2,098)</u> | <u>(3,619)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 1,956 | 1,897 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (28) | (5) |
| Distributions paid to unitholders | | (2,008) | (1,808) |
| Net cash flows from financing activities | | <u>(80)</u> | <u>84</u> |
| Net decrease in cash and cash equivalents | | (75) | (437) |
| Cash and cash equivalents at the beginning of the year | | 1,918 | 2,341 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | - | 14 |
| Cash and cash equivalents at the end of the year | | <u>1,843</u> | <u>1,918</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 1,432 | 8,838 |
| Net changes in fair value of financial assets at fair value through profit or loss | | 1,040 | (6,440) |
| Foreign exchange loss | | 36 | 4 |
| (Decrease)/increase in taxation payable | | (358) | 710 |
| (Decrease)/increase in deferred tax liability | | (27) | 19 |
| Increase in fund expenses payable | | 91 | 1 |
| Increase in receivables | | (111) | (34) |
| Net cash flows from operating activities | | <u>2,103</u> | <u>3,098</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The Australian Mid Cap Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 9 September 2016 and commenced operations on 7 November 2016.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that tracks the S&P/ASX Mid Cap 50 Index (the 'Index'). As prescribed by the Trust Deed, the Fund invests in the securities included in the Index broadly in proportion to the weightings of the Index. Investments are valued at fair value according to last traded market prices on the Australian Securities Exchange on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

AUSTRALIAN MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

AUSTRALIAN MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from investments in securities subject to the Fair Dividend Rate method ('FDR')) from its investments in securities after the deduction of management fees. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date. The temporary differences relate to accrued dividends.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in Australian equities. The Fund receives all of its income from its Australian equity investments.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has adopted the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

AUSTRALIAN MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|---------------------|-----------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (994) | (1,043) |
| Prior period adjustment | 141 | (2) |
| Deferred tax movement | <u>27</u> | <u>(19)</u> |
| Total tax expense | <u>(826)</u> | <u>(1,064)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|---------------------|-----------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | <u>2,258</u> | <u>9,902</u> |
| Income tax using the statutory income tax rate of 28% | (632) | (2,773) |
| Net changes in fair value of financial assets and financial liabilities | (296) | 1,762 |
| Non-taxable income | 166 | 132 |
| Tax on securities subject to FDR | <u>(205)</u> | <u>(190)</u> |
| | (967) | (1,069) |
| Less imputation credits and other tax credits | - | 7 |
| Prior period adjustment | <u>141</u> | <u>(2)</u> |
| Income tax expense as per Statement of Comprehensive Income | <u>(826)</u> | <u>(1,064)</u> |

Deferred tax

| | 2019 | 2018 |
|-------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Opening balance | (143) | (124) |
| Current period movement | <u>27</u> | <u>(19)</u> |
| Closing balance | <u>(116)</u> | <u>(143)</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 1,090 | 985 |

AUSTRALIAN MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|-------------------------------------------------------------|--------------------|---------------------|
| | 2019 | 2018 |
| Profit after tax | 1,432 | 8,838 |
| Weighted average number of units ('000) | <u>15,789</u> | <u>16,207</u> |
| Basic and diluted earnings per unit (cents per unit) | <u>9.07</u> | <u>54.53</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 5.65 | - | 862 |
| November 2017 (paid December 2017) | 31/03/2018 | 5.72 | - | 942 |
| May 2018 (paid June 2018) | 31/03/2019 | 5.52 | 908 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 7.14 | <u>1,100</u> | <u>-</u> |
| | | | <u>2,008</u> | <u>1,804</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 16,157,000 units on issue (2018: 16,607,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 1,275,000 (2018: 1,575,000) for total value of \$8,527,000 (2018: \$9,989,000).

The number of units redeemed during the year ended 31 March 2019 was 1,725,000 (2018: 75,000) for total value of \$12,623,000 (2018: \$522,000).

AUSTRALIAN MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

5. UNITHOLDERS' FUNDS (Continued)

| | 2019 '000 | 2018 '000 |
|----------------------------------------------|----------------------|----------------------|
| Movement in the number of units | | |
| Balance at the beginning of the year | 16,607 | 15,107 |
| Subscriptions received during the year | 1,275 | 1,575 |
| Redemptions made during the year | <u>(1,725)</u> | <u>(75)</u> |
| Units on issue at the end of the year | <u>16,157</u> | <u>16,607</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$6.68986 (2018: \$6.78991). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 7,055,535 units (2018: 8,018,706) valued at \$47,025,000 (2018: \$54,223,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$908,000 to SLI for the year ended 31 March 2019 (2018: \$847,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$432,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$282,000, with \$46,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$806,000 with outstanding management fees due to the Manager of \$7,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$nil (2018: \$2,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$18,000 (2018: \$18,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

AUSTRALIAN MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

Because the Fund tracks an equity index and is fully invested in the index's underlying equity securities, the value of the Fund will move up and down with the market.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$10,638,000 (2018: \$11,141,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-------------|----------------|---------------|----------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 301 | AA- | 329 | AA- |
| BNP Paribas | - | A+ | 55 | A |
| Westpac | 1,566 | AA- | 1,534 | AA- |
| | <u>1,867</u> | | <u>1,918</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investments in listed securities are considered readily realisable, as they are quoted on the Australian Securities Exchange. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning the proportionate number of underlying securities in return for the units. Liquidity risk for the Fund is therefore low.

AUSTRALIAN MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in Australian dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the Australian dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$10,698,000 (2018: \$11,197,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|-----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Australian dollar cash held (NZD) | (24) | 48 |
| Receivables | 619 | 508 |
| Investment in equity securities | 106,381 | 111,412 |

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of Australian Mid Cap Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Australian Mid Cap Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$1,089,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

AUSTRALIAN MID CAP FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 97.7% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

AUSTRALIAN MID CAP FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



AUSTRALIAN PROPERTY FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the Australian Property Fund

AUSTRALIAN PROPERTY FUND

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AUSTRALIAN PROPERTY FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

AUSTRALIAN PROPERTY FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The Australian Property Fund (the 'Fund') was created by an establishment deed dated 1 December 2014 as amended on 5 June 2015 and amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:
Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

AUSTRALIAN PROPERTY FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|---------------------|----------------------|
| INCOME | | | |
| Dividend income | | 1,850 | 2,632 |
| Net changes in fair value of financial assets at fair value through profit or loss | | 5,849 | (2,345) |
| Foreign exchange gain | | <u>-</u> | <u>13</u> |
| Total income | | <u>7,699</u> | <u>300</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (185) | (259) |
| Foreign exchange loss | | (7) | - |
| Miscellaneous expenses | | <u>(6)</u> | <u>(2)</u> |
| Total expenses | | <u>(198)</u> | <u>(261)</u> |
| Profit before tax | | 7,501 | 39 |
| Income tax expense | 1 | <u>(416)</u> | <u>(593)</u> |
| Profit/(loss) after tax | | 7,085 | (554) |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income/(loss) | | <u>7,085</u> | <u>(554)</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings/(losses) per unit (cents per unit) | 3 | <u>30.09</u> | <u>(1.58)</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN PROPERTY FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|-----------------------------|-----------------------------|
| Unitholders' funds at the beginning of the year | | 32,933 | 46,015 |
| Total comprehensive income/(loss) for the year | | <u>7,085</u> | <u>(554)</u> |
| Subscriptions from unitholders | 5 | 1,436 | 6,180 |
| Redemptions by unitholders | 5 | (3,802) | (17,083) |
| Distributions to unitholders | 4 | <u>(1,149)</u> | <u>(1,625)</u> |
| | | <u>(3,515)</u> | <u>(12,528)</u> |
| Unitholders' funds at the end of the year | | <u><u>36,503</u></u> | <u><u>32,933</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN PROPERTY FUND

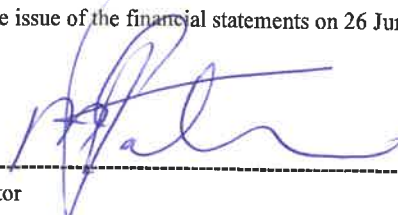
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 779 | 903 |
| Receivables | | 112 | 80 |
| Investments in equity securities at fair value through profit or loss | | 35,654 | 32,107 |
| Deferred tax asset | | 21 | - |
| TOTAL ASSETS | | <u><u>36,566</u></u> | <u><u>33,090</u></u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (29) | (1) |
| Taxation payable | | (8) | (26) |
| Funds held for unit purchases | | (26) | (36) |
| Other current liabilities | | - | (94) |
| TOTAL LIABILITIES | | <u><u>(63)</u></u> | <u><u>(157)</u></u> |
| UNITHOLDERS' FUNDS | | <u><u>36,503</u></u> | <u><u>32,933</u></u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u><u>36,566</u></u> | <u><u>33,090</u></u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN PROPERTY FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|----------------------------------------------------------------------------------------------|------|---------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 1,605 | 2,349 |
| Tax refund/received | | - | 93 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (157) | (260) |
| Taxation paid | | (336) | - |
| Miscellaneous expenses paid | | (6) | (2) |
| Net cash flows from operating activities | | <u>1,106</u> | <u>2,180</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 9,462 | 5,114 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | (9,856) | (5,448) |
| Net cash flows from investing activities | | <u>(394)</u> | <u>(334)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 356 | 484 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (43) | (403) |
| Distributions paid to unitholders | | (1,149) | (1,625) |
| Net cash flows from financing activities | | <u>(836)</u> | <u>(1,544)</u> |
| Net (decrease)/increase in cash and cash equivalents | | (124) | 302 |
| Cash and cash equivalents at the beginning of the year | | 903 | 566 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | - | 35 |
| Cash and cash equivalents at the end of the year | | <u>779</u> | <u>903</u> |
| Reconciliation of profit/(loss) after tax to net cash flows from operating activities | | | |
| Profit/(loss) after tax | | 7,085 | (554) |
| Net changes in fair value of financial assets at fair value through profit or loss | | (5,849) | 2,345 |
| Foreign exchange loss/(gain) | | 7 | (13) |
| Decrease in taxation receivable | | - | 281 |
| (Decrease)/increase in taxation payable | | (18) | 26 |
| Increase in deferred tax asset | | (21) | - |
| Increase/(decrease) in fund expenses payable | | 28 | (1) |
| (Increase)/decrease in receivables | | (32) | 2 |
| (Decrease)/increase in payable to Manager | | (94) | 94 |
| Net cash flows from operating activities | | <u>1,106</u> | <u>2,180</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The Australian Property Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 1 December 2014 and commenced operations on 16 December 2014.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that tracks the S&P/ASX 200 A-REIT Equal Weight Index (the 'Index'). As prescribed by the Trust Deed, the Fund invests in the securities included in the Index broadly in proportion to the weightings of the Index. Investments are valued at fair value according to last traded market prices on the Australian Securities Exchange on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

AUSTRALIAN PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

AUSTRALIAN PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from investments in securities subject to the Fair Dividend Rate method ('FDR')) from its investments in securities after the deduction of management fees. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in Australian equities. The Fund receives all of its income from its Australian equity investments.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

AUSTRALIAN PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 \$'000 | 2018 \$'000 |
|-------------------------------|---------------------|---------------------|
| Tax expense comprises: | | |
| Current tax expense | (434) | (593) |
| Deferred tax movement | <u>18</u> | <u>-</u> |
| Total tax expense | <u>(416)</u> | <u>(593)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 \$'000 | 2018 \$'000 |
|-------------------------------------------------------------------------|---------------------|---------------------|
| Income tax expense | | |
| Profit before tax | <u>7,501</u> | <u>39</u> |
| Income tax using the statutory income tax rate of 28% | (2,100) | (11) |
| Net changes in fair value of financial assets and financial liabilities | 1,637 | (657) |
| Non-taxable income | 516 | 732 |
| Tax on securities subject to FDR | <u>(466)</u> | <u>(657)</u> |
| | (413) | (593) |
| Less imputation credits and other tax credits | <u>(3)</u> | <u>-</u> |
| Income tax expense as per Statement of Comprehensive Income | <u>(416)</u> | <u>(593)</u> |

Deferred tax

| | 2019 \$'000 | 2018 \$'000 |
|--------------------------|------------------|-----------------|
| Opening balance | - | - |
| Current period movement | 18 | - |
| Prior period adjustments | <u>3</u> | <u>-</u> |
| Closing balance | <u>21</u> | <u>-</u> |

Imputation credit account (ICA)

| | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------|----------------|----------------|
| Imputation credits available for use in subsequent periods | 76 | 26 |

AUSTRALIAN PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|----------------------------------------------------------------------|---------------------|----------------------|
| | 2019 | 2018 |
| Profit/(loss) after tax | 7,085 | (554) |
| Weighted average number of units ('000) | <u>23,548</u> | <u>35,152</u> |
| Basic and diluted earnings/(losses) per unit (cents per unit) | <u>30.09</u> | <u>(1.58)</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 1.52 | - | 506 |
| November 2017 (paid December 2017) | 31/03/2018 | 3.01 | - | 1,119 |
| May 2018 (paid June 2018) | 31/03/2019 | 2.70 | 683 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 2.03 | <u>466</u> | <u>-</u> |
| | | | <u>1,149</u> | <u>1,625</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 23,548,000 units on issue (2018: 25,173,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 1,000,000 (2018: 4,750,000) for total value of \$1,436,000 (2018: \$6,180,000).

The number of units redeemed during the year ended 31 March 2019 was 2,625,000 (2018: 13,125,000) for total value of \$3,802,000 (2018: \$17,083,000).

AUSTRALIAN PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

5. UNITHOLDERS' FUNDS (Continued)

| | 2019 | 2018 |
|----------------------------------------------|----------------------|----------------------|
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 25,173 | 33,548 |
| Subscriptions received during the year | 1,000 | 4,750 |
| Redemptions made during the year | <u>(2,625)</u> | <u>(13,125)</u> |
| Units on issue at the end of the year | <u>23,548</u> | <u>25,173</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$1.55015 (2018: \$1.30827). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 21,311,450 units (2018: 23,310,995) valued at \$33,055,000 (2018: \$30,458,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$1,052,000 to SLI for the year ended 31 March 2019 (2018: \$1,546,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$93,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$47,000, with \$7,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$259,000 with outstanding management fees due to the Manager of \$1,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$nil (2018: \$1,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$6,000 (2018: \$8,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

AUSTRALIAN PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

Because the Fund tracks an Australian equity index and is fully invested in the index's underlying Australian equity securities, the value of the Fund will move up and down with the Australian market.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$3,565,000 (2018: \$3,211,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-------------|-------------------|---------------|-------------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 26 | AA- | 36 | AA- |
| BNP Paribas | - | A+ | 14 | A |
| Westpac | <u>753</u> | AA- | <u>853</u> | AA- |
| | <u><u>779</u></u> | | <u><u>903</u></u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investments in listed securities are considered readily realisable, as they are quoted on the Australian Securities Exchange. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning the proportionate number of underlying securities in return for the units. Liquidity risk for the Fund is therefore low.

AUSTRALIAN PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in Australian dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the Australian dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$3,577,000 (2018: \$3,220,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|-----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Australian dollar cash held (NZD) | - | 14 |
| Receivables | 112 | 80 |
| Investment in equity securities | 35,654 | 32,107 |

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of Australian Property Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Australian Property Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$366,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

AUSTRALIAN PROPERTY FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 97.5% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

AUSTRALIAN PROPERTY FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



AUSTRALIAN RESOURCES FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the Australian Resources Fund

AUSTRALIAN RESOURCES FUND

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AUSTRALIAN RESOURCES FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

AUSTRALIAN RESOURCES FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The Australian Resources Fund (the 'Fund') was created by an establishment deed dated 19 March 2015 as amended on 5 June 2015 and amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:
Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

AUSTRALIAN RESOURCES FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|----------------------|---------------------|
| INCOME | | | |
| Dividend income | | 1,701 | 1,014 |
| Net changes in fair value of financial assets at fair value through profit or loss | | <u>5,681</u> | <u>2,450</u> |
| Total income | | <u>7,382</u> | <u>3,464</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (166) | (145) |
| Foreign exchange loss | | (10) | (19) |
| Miscellaneous expenses | | <u>(1)</u> | <u>(1)</u> |
| Total expenses | | <u>(177)</u> | <u>(165)</u> |
| Profit before tax | | 7,205 | 3,299 |
| Income tax expense | 1 | <u>(441)</u> | <u>(251)</u> |
| Profit after tax | | 6,764 | 3,048 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>6,764</u> | <u>3,048</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>103.74</u> | <u>45.30</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN RESOURCES FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|-----------------------------|-----------------------------|
| Unitholders' funds at the beginning of the year | | 30,865 | 23,907 |
| Total comprehensive income for the year | | <u>6,764</u> | <u>3,048</u> |
| Subscriptions from unitholders | 5 | 4,844 | 4,397 |
| Redemptions by unitholders | 5 | (10,344) | - |
| Distributions to unitholders | 4 | <u>(816)</u> | <u>(487)</u> |
| | | <u>(6,316)</u> | <u>3,910</u> |
| Unitholders' funds at the end of the year | | <u><u>31,313</u></u> | <u><u>30,865</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN RESOURCES FUND

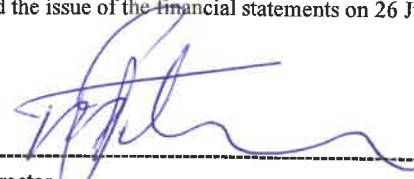
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 599 | 570 |
| Receivables | | 275 | 202 |
| Investments in equity securities at fair value through profit or loss | | <u>31,303</u> | <u>30,322</u> |
| TOTAL ASSETS | | <u>32,177</u> | <u>31,094</u> |
| LIABILITIES | | | |
| Bank overdraft | | (17) | - |
| Fund expenses payable | 6 | (29) | (1) |
| Taxation payable | | (316) | (138) |
| Deferred tax payable | | (77) | (57) |
| Funds held for unit purchases | | (52) | (33) |
| Unsettled purchases of investments | | <u>(373)</u> | <u>-</u> |
| TOTAL LIABILITIES | | <u>(864)</u> | <u>(229)</u> |
| UNITHOLDERS' FUNDS | | <u>31,313</u> | <u>30,865</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>32,177</u> | <u>31,094</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN RESOURCES FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|-----------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 1,624 | 941 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (138) | (145) |
| Taxation paid | | (239) | (52) |
| Miscellaneous expenses paid | | (1) | (1) |
| Net cash flows from operating activities | | <u>1,246</u> | <u>743</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 1,462 | 2,016 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | (2,595) | (2,569) |
| Net cash flows from investing activities | | <u>(1,133)</u> | <u>(553)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 748 | 554 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (33) | - |
| Distributions paid to unitholders | | (816) | (487) |
| Net cash flows from financing activities | | <u>(101)</u> | <u>67</u> |
| Net increase in cash and cash equivalents | | 12 | 257 |
| Cash and cash equivalents at the beginning of the year | | 570 | 315 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | - | (2) |
| Cash and cash equivalents at the end of the year | | <u>582</u> | <u>570</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 6,764 | 3,048 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (5,681) | (2,450) |
| Foreign exchange loss | | 10 | 19 |
| Decrease in taxation receivable | | - | 38 |
| Increase in taxation payable | | 178 | 138 |
| Increase in deferred tax liability | | 20 | 20 |
| Increase in fund expenses payable | | 28 | - |
| Increase in receivables | | (73) | (70) |
| Net cash flows from operating activities | | <u>1,246</u> | <u>743</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN RESOURCES FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The Australian Resources Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 19 March 2015 and commenced operations on 7 April 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that tracks the S&P/ASX 200 Resources Index (the 'Index'). As prescribed by the Trust Deed, the Fund invests in the securities included in the Index broadly in proportion to the weightings of the Index. Investments are valued at fair value according to last traded market prices on the Australian Securities Exchange on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

AUSTRALIAN RESOURCES FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

AUSTRALIAN RESOURCES FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from investments in securities subject to the Fair Dividend Rate method ('FDR')) from its investments in securities after the deduction of management fees. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date. The temporary differences relate to accrued dividends.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in Australian equities. The Fund receives all of its income from its Australian equity investments.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

AUSTRALIAN RESOURCES FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 \$'000 | 2018 \$'000 |
|-------------------------------|---------------------|---------------------|
| Tax expense comprises: | | |
| Current tax expense | (421) | (231) |
| Deferred tax movement | <u>(20)</u> | <u>(20)</u> |
| Total tax expense | <u>(441)</u> | <u>(251)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 \$'000 | 2018 \$'000 |
|-------------------------------------------------------------------------|---------------------|---------------------|
| Income tax expense | | |
| Profit before tax | <u>7,205</u> | <u>3,299</u> |
| Income tax using the statutory income tax rate of 28% | (2,017) | (924) |
| Net changes in fair value of financial assets and financial liabilities | 1,585 | 684 |
| Non-taxable income | 5 | 1 |
| Tax on securities subject to FDR | <u>(14)</u> | <u>(12)</u> |
| | (441) | (251) |
| Income tax expense as per Statement of Comprehensive Income | <u>(441)</u> | <u>(251)</u> |

Deferred tax

| | 2019 \$'000 | 2018 \$'000 |
|-------------------------|--------------------|--------------------|
| Opening balance | (57) | (37) |
| Current period movement | <u>(20)</u> | <u>(20)</u> |
| Closing balance | <u>(77)</u> | <u>(57)</u> |

Imputation credit account (ICA)

| | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------|----------------|----------------|
| Imputation credits available for use in subsequent periods | 488 | 389 |

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable'

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

AUSTRALIAN RESOURCES FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|-------------------------------------------------------------|----------------------|---------------------|
| | 2019 | 2018 |
| Profit after tax | 6,764 | 3,048 |
| Weighted average number of units ('000) | <u>6,520</u> | <u>6,728</u> |
| Basic and diluted earnings per unit (cents per unit) | <u>103.74</u> | <u>45.30</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 4.73 | - | 306 |
| November 2017 (paid December 2017) | 31/03/2018 | 2.67 | - | 181 |
| May 2018 (paid June 2018) | 31/03/2019 | 5.91 | 435 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 6.11 | <u>381</u> | <u>-</u> |
| | | | <u>816</u> | <u>487</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 6,308,000 units on issue (2018: 7,433,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 1,050,000 (2018: 1,041,000) for total value of \$4,844,000 (2018: \$4,397,000).

The number of units redeemed during the year ended 31 March 2019 was 2,175,000 (2018: nil) for total value of \$10,344,000 (2018: \$nil).

| | | |
|----------------------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 7,433 | 6,392 |
| Subscriptions received during the year | 1,050 | 1,041 |
| Redemptions made during the year | <u>(2,175)</u> | <u>-</u> |
| Units on issue at the end of the year | <u>6,308</u> | <u>7,433</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$4.96401 (2018: \$4.15243). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

AUSTRALIAN RESOURCES FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 4,654,357 units (2018: 6,409,502) valued at \$23,121,000 (2018: \$26,582,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$650,000 to SLI for the year ended 31 March 2019 (2018: \$446,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$87,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$25,000, with \$4,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$145,000 with outstanding management fees due to the Manager of \$1,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$nil (2018: \$2,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$4,000 (2018: \$3,000).

Other related party transactions

Total audit fees for the year ended 31 March 2019 amounted to \$5,000 (2018: \$5,000).

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

Because the Fund tracks an Australian equity index and is fully invested in the index's underlying Australian equity securities, the value of the Fund will move up and down with the Australian market.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$3,130,000 (2018: \$3,032,000).

AUSTRALIAN RESOURCES FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-------------|-------------------|---------------|-------------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 52 | AA- | 33 | AA- |
| BNP Paribas | - | A+ | 14 | A |
| Westpac | <u>547</u> | AA- | <u>523</u> | AA- |
| | <u>599</u> | | <u>570</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investments in listed securities are considered readily realisable, as they are quoted on the Australian Securities Exchange. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning the proportionate number of underlying securities in return for the units. Liquidity risk for the Fund is therefore low.

7d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in Australian dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the Australian dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$3,119,000 (2018: \$3,054,000).

AUSTRALIAN RESOURCES FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|-----------------------------------------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Australian dollar cash held (NZD) | (17) | 14 |
| Receivables | 275 | 202 |
| Investments in equity securities at fair value through profit or loss | 31,303 | 30,322 |
| Unsettled purchase of investments | (373) | - |

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of Australian Resources Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Australian Resources Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$322,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

AUSTRALIAN RESOURCES FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 97.5% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

AUSTRALIAN RESOURCES FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



AUSTRALIAN TOP 20 FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the Australian Top 20 Fund

AUSTRALIAN TOP 20 FUND

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AUSTRALIAN TOP 20 FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80
Email: smartshares@smartshares.co.nz
Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

AUSTRALIAN TOP 20 FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The Australian Top 20 Fund (the 'Fund') was created by an establishment deed dated 9 September 2016 between the Manager and Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:
Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

AUSTRALIAN TOP 20 FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|----------------------|-----------------------|
| INCOME | | | |
| Dividend income | | 8,696 | 4,728 |
| Net changes in fair value of financial assets at fair value through profit or loss | | 5,739 | (10,389) |
| Other income | | <u>10</u> | <u>-</u> |
| Total income | | <u>14,445</u> | <u>(5,661)</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (726) | (573) |
| Foreign exchange loss | | (44) | (174) |
| Miscellaneous expenses | | <u>(5)</u> | <u>(1)</u> |
| Total expenses | | <u>(775)</u> | <u>(748)</u> |
| Profit/(loss) before tax | | 13,670 | (6,409) |
| Income tax expense | 1 | <u>(1,639)</u> | <u>(1,074)</u> |
| Profit/(loss) after tax | | 12,031 | (7,483) |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income/(loss) | | <u>12,031</u> | <u>(7,483)</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings/(losses) per unit (cents per unit) | 3 | <u>36.10</u> | <u>(27.52)</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN TOP 20 FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|-----------------------|-----------------------|
| Unitholders' funds at the beginning of the year | | 122,746 | 97,104 |
| Total comprehensive income/(loss) for the year | | <u>12,031</u> | <u>(7,483)</u> |
| Subscriptions from unitholders | 5 | 3,648 | 37,731 |
| Redemptions by unitholders | 5 | (14,974) | (1,646) |
| Distributions to unitholders | | <u>(3,824)</u> | <u>(2,960)</u> |
| | | <u>(15,150)</u> | <u>33,125</u> |
| Unitholders' funds at the end of the year | | <u><u>119,627</u></u> | <u><u>122,746</u></u> |

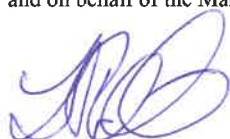
The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN TOP 20 FUND

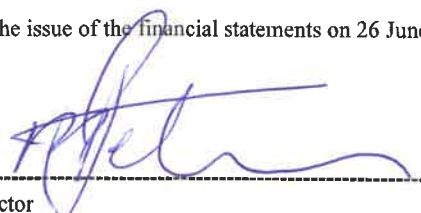
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 3,083 | 3,402 |
| Receivables | | 871 | 394 |
| Investments in equity securities at fair value through profit or loss | | <u>117,628</u> | <u>120,333</u> |
| TOTAL ASSETS | | <u>121,582</u> | <u>124,129</u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (89) | (6) |
| Taxation payable | | (1,222) | (1,092) |
| Deferred tax payable | | (247) | (112) |
| Distribution payable to unitholders | | (7) | (5) |
| Funds held for unit purchases | | (119) | (168) |
| Unsettled purchases of investments | | <u>(271)</u> | <u>-</u> |
| TOTAL LIABILITIES | | <u>(1,955)</u> | <u>(1,383)</u> |
| UNITHOLDERS' FUNDS | | <u>119,627</u> | <u>122,746</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>121,582</u> | <u>124,129</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN TOP 20 FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|----------------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 8,195 | 4,933 |
| Miscellaneous income received | | 10 | - |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (643) | (572) |
| Taxation paid | | (1,350) | (193) |
| Miscellaneous expenses paid | | (5) | (1) |
| Net cash flows from operating activities | | <u>6,207</u> | <u>4,167</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 11,093 | 3,437 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | (15,275) | (6,111) |
| Net cash flows from investing activities | | <u>(4,182)</u> | <u>(2,674)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 1,610 | 2,270 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (132) | (30) |
| Distributions paid to unitholders | | (3,822) | (2,955) |
| Net cash flows from financing activities | | <u>(2,344)</u> | <u>(715)</u> |
| Net (decrease)/increase in cash and cash equivalents | | (319) | 778 |
| Cash and cash equivalents at the beginning of the year | | 3,402 | 2,629 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | - | (5) |
| Cash and cash equivalents at the end of the year | | <u>3,083</u> | <u>3,402</u> |
| Reconciliation of profit/(loss) after tax to net cash flows from operating activities | | | |
| Profit/(loss) after tax | | 12,031 | (7,483) |
| Net changes in fair value of financial assets at fair value through profit or loss | | (5,739) | 10,389 |
| Foreign exchange loss | | 44 | 174 |
| Increase in taxation payable | | 130 | 913 |
| Increase/(decrease) in deferred tax payable | | 135 | (47) |
| Increase in fund expenses payable | | 83 | 1 |
| (Increase)/decrease in receivables | | (477) | 220 |
| Net cash flows from operating activities | | <u>6,207</u> | <u>4,167</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

AUSTRALIAN TOP 20 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The Australian Top 20 Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 9 September 2016 and commenced operations on 7 November 2016.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that tracks the S&P/ASX 20 Index (the 'Index'). As prescribed by the Trust Deed, the Fund invests in the securities included in the Index broadly in proportion to the weightings of the Index. Investments are valued at fair value according to last traded market prices on the Australian Securities Exchange on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

AUSTRALIAN TOP 20 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

AUSTRALIAN TOP 20 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from investments in securities subject to the Fair Dividend Rate method ('FDR')) from its investments in securities after the deduction of management fees. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. The Fund is able to utilise imputation credits and foreign withholding tax credits when they are available. The Fund pays tax to the extent that the imputation credits and foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date. The temporary differences relate to accrued dividends.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in Australian equities. The Fund receives all of its income from its Australian equity investments.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

AUSTRALIAN TOP 20 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|-----------------------|-----------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (1,504) | (1,121) |
| Deferred tax movement | <u>(135)</u> | <u>47</u> |
| Total tax expense | <u>(1,639)</u> | <u>(1,074)</u> |

The prima facie income tax expense on profit/(loss) before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|-----------------------|-----------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit/(loss) before tax | <u>13,670</u> | <u>(6,409)</u> |
| Income tax using the statutory income tax rate of 28% | (3,828) | 1,795 |
| Net changes in fair value of financial assets and financial liabilities | 1,598 | (2,914) |
| Non-taxable income | 582 | 37 |
| Tax on securities subject to FDR | (96) | (91) |
| Gross up of imputation credits | <u>(41)</u> | <u>(39)</u> |
| | (1,785) | (1,212) |
| Less imputation credits and other tax credits | <u>146</u> | <u>138</u> |
| Income tax expense as per Statement of Comprehensive Income | <u>(1,639)</u> | <u>(1,074)</u> |

Deferred tax

| | 2019 | 2018 |
|--------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Opening balance | (112) | (159) |
| Current period movements | <u>(135)</u> | <u>47</u> |
| Closing balance | <u>(247)</u> | <u>(112)</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 1,302 | 1,164 |

AUSTRALIAN TOP 20 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable'

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|----------------------------------------------------------------------|---------------------|-----------------------|
| | 2019 | 2018 |
| Profit/(loss) after tax | 12,031 | (7,483) |
| Weighted average number of units ('000) | <u>33,331</u> | <u>27,189</u> |
| Basic and diluted earnings/(losses) per unit (cents per unit) | <u>36.10</u> | <u>(27.52)</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 6.10 | - | 1,578 |
| November 2017 (paid December 2017) | 31/03/2018 | 5.21 | - | 1,376 |
| May 2018 (paid June 2018) | 31/03/2019 | 5.70 | 2,026 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 5.53 | <u>1,798</u> | - |
| | | | <u>3,824</u> | <u>2,954</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 32,856,000 units on issue (2018: 35,781,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 1,050,000 (2018: 10,504,000) for total value of \$3,648,000 (2018: \$37,731,000).

The number of units redeemed during the year ended 31 March 2019 was 3,975,000 (2018: 450,000) for total value of \$14,974,000 (2018: \$1,646,000).

AUSTRALIAN TOP 20 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

5. UNITHOLDERS' FUNDS (Continued)

| | 2019 | 2018 |
|----------------------------------------------|----------------------|----------------------|
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 35,781 | 25,727 |
| Subscriptions received during the year | 1,050 | 10,504 |
| Redemptions made during the year | <u>(3,975)</u> | <u>(450)</u> |
| Units on issue at the end of the year | <u>32,856</u> | <u>35,781</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (as per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$3.64095 (2018: \$3.43048). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 7,888,900 units (2018: 10,800,076) valued at \$28,612,000 (2018: \$36,991,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$1,028,000 to SLI for the year ended 31 March 2019 (2018: \$158,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$380,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$241,000, with \$40,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$573,000 with outstanding management fees due to the Manager of \$6,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$1,000 (2018: \$4,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$27,000 (2018: \$24,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

AUSTRALIAN TOP 20 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

Because the Fund tracks an Australian equity index and is fully invested in the index's underlying Australian equity securities, the value of the Fund will move up and down with the Australian market.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$11,763,000 (2018: \$12,033,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-------------|---------------------|---------------|---------------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 165 | AA- | 213 | AA- |
| BNP Paribas | - | A+ | 45 | A |
| Westpac | <u>2,918</u> | AA- | <u>3,144</u> | AA- |
| | <u>3,083</u> | | <u>3,402</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investments in listed securities are considered readily realisable, as they are quoted on the Australian Securities Exchange. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning the proportionate number of underlying securities in return for the units. Liquidity risk for the Fund is therefore low.

AUSTRALIAN TOP 20 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in Australian dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the Australian dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$11,823,000 (2018: \$12,073,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|-----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Australian dollar cash held (NZD) | - | 2 |
| Receivables | 871 | 394 |
| Investment in equity securities | 117,628 | 120,333 |
| Unsettled purchase of investments | (271) | - |

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of Australian Top 20 Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Australian Top 20 Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$1,216,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

AUSTRALIAN TOP 20 FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 96.7% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

AUSTRALIAN TOP 20 FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington
26 June 2019



EMERGING MARKETS FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the Emerging Markets Fund

EMERGING MARKETS FUND

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EMERGING MARKETS FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
Wellington 6011
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)

Guy R. Elliffe

Mark J. Peterson

A. John Williams

Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand

Chartered Accountants House

Level 5, 50 - 64 Customhouse Quay

Wellington 6011

New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

EMERGING MARKETS FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The Emerging Markets Fund (the 'Fund') was created by an establishment deed dated 10 July 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:
Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

EMERGING MARKETS FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|-----------------------|---------------------|
| INCOME | | | |
| Dividend income | | 2,819 | 1,249 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (4,016) | 8,047 |
| Foreign exchange gain | | <u>74</u> | <u>-</u> |
| Total income | | <u>(1,123)</u> | <u>9,296</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (473) | (244) |
| Foreign exchange loss | | <u>-</u> | <u>(277)</u> |
| Total expenses | | <u>(473)</u> | <u>(521)</u> |
| (Loss)/profit before tax | | (1,596) | 8,775 |
| Income tax expense | 1 | <u>(1,334)</u> | <u>(685)</u> |
| (Loss)/profit after tax | | (2,930) | 8,090 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive (loss)/income | | <u>(2,930)</u> | <u>8,090</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted (losses)/earnings per unit (cents per unit) | 3 | <u>(3.37)</u> | <u>18.13</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

EMERGING MARKETS FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|------------------------------|-----------------------------|
| Unitholders' funds at the beginning of the year | | 88,952 | 43,040 |
| Total comprehensive (loss)/income for the year | | <u>(2,930)</u> | <u>8,090</u> |
| Subscriptions from unitholders | 5 | 34,344 | 38,391 |
| Redemptions by unitholders | 5 | (259) | - |
| Distributions to unitholders | 4 | <u>(1,093)</u> | <u>(569)</u> |
| | | <u>32,992</u> | <u>37,822</u> |
| Unitholders' funds at the end of the year | | <u><u>119,014</u></u> | <u><u>88,952</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

EMERGING MARKETS FUND

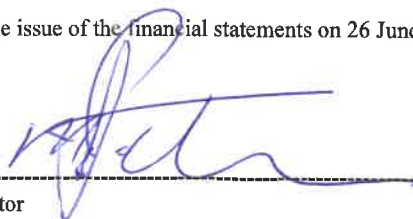
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 1,050 | 806 |
| Investments in equity securities at fair value through profit or loss | | <u>118,900</u> | <u>90,488</u> |
| TOTAL ASSETS | | <u>119,950</u> | <u>91,294</u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (66) | (3) |
| Taxation payable | | (652) | (348) |
| Funds held for unit purchases | | (100) | (239) |
| Unsettled purchases of investments | | <u>(118)</u> | <u>(1,752)</u> |
| TOTAL LIABILITIES | | <u>(936)</u> | <u>(2,342)</u> |
| UNITHOLDERS' FUNDS | | <u>119,014</u> | <u>88,952</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>119,950</u> | <u>91,294</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

EMERGING MARKETS FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|----------------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 2,396 | 1,062 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (410) | (243) |
| Taxation paid | | <u>(607)</u> | <u>(268)</u> |
| Net cash flows from operating activities | | <u>1,379</u> | <u>551</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | <u>(2,192)</u> | <u>(3,058)</u> |
| Net cash flows from investing activities | | <u>(2,192)</u> | <u>(3,058)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 2,153 | 3,242 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (3) | - |
| Distributions paid to unitholders | | <u>(1,093)</u> | <u>(569)</u> |
| Net cash flows from financing activities | | <u>1,057</u> | <u>2,673</u> |
| Net increase in cash and cash equivalents | | 244 | 166 |
| Cash and cash equivalents at the beginning of the year | | <u>806</u> | <u>640</u> |
| Cash and cash equivalents at the end of the year | | <u>1,050</u> | <u>806</u> |
| Reconciliation of (loss)/profit after tax to net cash flows from operating activities | | | |
| (Loss)/profit after tax | | (2,930) | 8,090 |
| Net changes in fair value of financial assets at fair value through profit or loss | | 4,016 | (8,047) |
| Foreign exchange (gain)/loss | | (74) | 277 |
| Increase in taxation payable | | 304 | 230 |
| Increase in fund expenses payable | | <u>63</u> | <u>1</u> |
| Net cash flows from operating activities | | <u>1,379</u> | <u>551</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

EMERGING MARKETS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The Emerging Markets Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 10 July 2015 and commenced operations on 29 July 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that invests in the Vanguard FTSE Emerging Markets ETF (the 'Underlying Fund'), which tracks the FTSE Emerging Markets All Cap China A Inclusion Index (the 'Underlying Index'). The Underlying Fund invests in securities contained in the Underlying Index broadly in proportion to the weightings of the Underlying Index. Investments are valued at fair value according to last traded market prices on the New York Stock Exchange Area on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

EMERGING MARKETS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for units in the Underlying Fund and a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

EMERGING MARKETS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on investments in securities subject to the Fair Dividend Rate method ('FDR') after the deduction of management fees. FDR income is based on the market value of the security. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in the Underlying Fund being the Vanguard FTSE Emerging Markets ETF. The Fund receives all of its dividend income from this investment.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

EMERGING MARKETS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|-----------------------|---------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (1,334) | (685) |
| Total tax expense | <u>(1,334)</u> | <u>(685)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|-----------------------|---------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| (Loss)/profit before tax | (1,596) | 8,775 |
| Income tax using the statutory income tax rate of 28% | 447 | (2,457) |
| Net changes in fair value of financial assets and financial liabilities | (1,122) | 2,251 |
| Non-taxable income | 810 | 276 |
| Tax on securities subject to FDR | (1,469) | (755) |
| | <u>(1,334)</u> | <u>(685)</u> |
| Income tax expense as per Statement of Comprehensive Income | <u>(1,334)</u> | <u>(685)</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 1,171 | 685 |

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

EMERGING MARKETS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|----------------------------------------------------------------------|----------------------|---------------------|
| | 2019 | 2018 |
| (Loss)/profit after tax | (2,930) | 8,090 |
| Weighted average number of units ('000) | <u>87,032</u> | <u>44,624</u> |
| Basic and diluted (losses)/earnings per unit (cents per unit) | <u>(3.37)</u> | <u>18.13</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 0.53 | - | 201 |
| November 2017 (paid December 2017) | 31/03/2018 | 0.88 | - | 368 |
| November 2018 (paid December 2018) | 31/03/2019 | 1.19 | <u>1,093</u> | <u>-</u> |
| | | | <u>1,093</u> | <u>569</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 95,304,000 units on issue (2018: 68,109,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 27,420,000 (2018: 30,522,000) for total value of \$34,344,000 (2018: \$38,391,000).

The number of units redeemed during the year ended 31 March 2019 was 225,000 (2018: nil) for total value of \$259,000 (2018: \$nil).

| | | |
|----------------------------------------------|----------------------|----------------------|
| | 2019 | 2018 |
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 68,109 | 37,587 |
| Subscriptions received during the year | 27,420 | 30,522 |
| Redemptions made during the year | <u>(225)</u> | <u>-</u> |
| Units on issue at the end of the year | <u>95,304</u> | <u>68,109</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$1.24878 (2018: \$1.30602). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

EMERGING MARKETS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 83,830,516 units (2018: 61,604,782) valued at \$103,881,000 (2018: \$78,918,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$973,000 to SLI for the year ended 31 March 2019 (2018: \$513,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$227,000. Total net management fees from 1 October to 31 March 2019 amounted to \$183,000 with \$32,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$244,000 with outstanding management fees due to the Manager of: \$3,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$1,000 (2018: \$8,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$11,000 (2018: \$7,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

The Fund's market price risk is affected by actual changes in market prices. As the Fund invests in an Underlying Fund which tracks an Underlying Index, any change in the Underlying Index will result in a corresponding change in the assets at fair value through profit or loss.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$11,890,000 (2018: \$9,049,000).

EMERGING MARKETS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-------------|---------------------|---------------|-------------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 100 | AA- | 239 | AA- |
| BNP Paribas | - | A+ | - | A |
| Westpac | <u>950</u> | AA- | <u>567</u> | AA- |
| | <u>1,050</u> | | <u>806</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investment in the Vanguard FTSE Emerging Markets ETF is considered readily realisable, as it is quoted on the New York Stock Exchange Arca. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning units in the Underlying Fund. Liquidity risk for the Fund is therefore low.

7d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in US dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the US dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$11,878,000 (2018: \$8,874,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|-----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Investment in equity securities | 118,900 | 90,488 |
| Unsettled purchase of investments | (119) | (1,752) |

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

EMERGING MARKETS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.

EMERGING MARKETS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019



Independent Auditor's Report

To the unitholders of Emerging Markets Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Emerging Markets Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$1,200,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

EMERGING MARKETS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 99.1% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

EMERGING MARKETS FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington
26 June 2019



EUROPE FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the Europe Fund

EUROPE FUND

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EUROPE FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

EUROPE FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The Europe Fund (the 'Fund') was created by an establishment deed dated 10 July 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

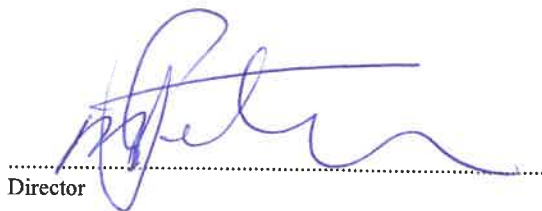
It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

EUROPE FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|-----------------------|----------------------|
| INCOME | | | |
| Dividend income | | 5,293 | 4,862 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (3,857) | 16,268 |
| Foreign exchange gain | | <u>67</u> | <u>-</u> |
| Total income | | <u>1,503</u> | <u>21,130</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (689) | (834) |
| Foreign exchange loss | | <u>-</u> | <u>(61)</u> |
| Total expenses | | <u>(689)</u> | <u>(895)</u> |
| Profit before tax | | 814 | 20,235 |
| Income tax expense | 1 | <u>(1,924)</u> | <u>(2,343)</u> |
| (Loss)/profit after tax | | (1,110) | 17,892 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive (loss)/income | | <u>(1,110)</u> | <u>17,892</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted (losses)/earnings per unit (cents per unit) | | <u>(1.16)</u> | <u>15.62</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

EUROPE FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|------------------------------|------------------------------|
| Unitholders' funds at the beginning of the year | | 140,982 | 160,620 |
| Total comprehensive (loss)/income for the year | | <u>(1,110)</u> | <u>17,892</u> |
| Subscriptions from unitholders | 5 | 29,575 | 23,309 |
| Redemptions by unitholders | 5 | (2,698) | (58,372) |
| Distributions to unitholders | 4 | <u>(2,601)</u> | <u>(2,467)</u> |
| | | <u>24,276</u> | <u>(37,530)</u> |
| Unitholders' funds at the end of the year | | <u><u>164,148</u></u> | <u><u>140,982</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

EUROPE FUND

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 1,536 | 1,838 |
| Investments in equity securities at fair value through profit or loss | | <u>163,263</u> | <u>141,835</u> |
| TOTAL ASSETS | | <u>164,799</u> | <u>143,673</u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (77) | (5) |
| Taxation payable | | (502) | (1,162) |
| Funds held for unit purchases | | (72) | (156) |
| Unsettled purchases of investments | | <u>-</u> | <u>(1,368)</u> |
| TOTAL LIABILITIES | | <u>(651)</u> | <u>(2,691)</u> |
| UNITHOLDERS' FUNDS | | <u>164,148</u> | <u>140,982</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>164,799</u> | <u>143,673</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.

Director

Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

EUROPE FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|----------------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 4,499 | 4,133 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (617) | (835) |
| Taxation paid | | <u>(1,790)</u> | <u>(800)</u> |
| Net cash flows from operating activities | | <u>2,092</u> | <u>2,498</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | - | 38 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | <u>(1,348)</u> | <u>(2,580)</u> |
| Net cash flows from investing activities | | <u>(1,348)</u> | <u>(2,542)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 1,557 | 2,836 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (2) | - |
| Distributions paid to unitholders | | <u>(2,601)</u> | <u>(2,467)</u> |
| Net cash flows from financing activities | | <u>(1,046)</u> | <u>369</u> |
| Net (decrease)/increase in cash and cash equivalents | | (302) | 325 |
| Cash and cash equivalents at the beginning of the year | | <u>1,838</u> | <u>1,513</u> |
| Cash and cash equivalents at the end of the year | | <u>1,536</u> | <u>1,838</u> |
| Reconciliation of (loss)/profit after tax to net cash flows from operating activities | | | |
| (Loss)/profit after tax | | (1,110) | 17,892 |
| Net changes in fair value of financial assets at fair value through profit or loss | | 3,857 | (16,268) |
| Foreign exchange (gain)/loss | | (67) | 61 |
| (Decrease)/increase in taxation payable | | (660) | 814 |
| Increase/(decrease) in fund expenses payable | | <u>72</u> | <u>(1)</u> |
| Net cash flows from operating activities | | <u>2,092</u> | <u>2,498</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The Europe Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 10 July 2015 and commenced operations on 29 July 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that invests in the Vanguard FTSE Europe ETF (the 'Underlying Fund'), which tracks the FTSE Developed Europe All Cap Index (the 'Underlying Index'). The Underlying Fund invests in securities contained in the Underlying Index broadly in proportion to the weightings of the Underlying Index. Investments are valued at fair value according to last traded market prices on the New York Stock Exchange Area on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for units in the Underlying Fund and a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on investments in securities subject to the Fair Dividend Rate method ('FDR') after the deduction of management fees. FDR income is based on the market value of the security. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in the Underlying Fund being the Vanguard FTSE Europe. The Fund receives all of its dividend income from this investment.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|-----------------------|-----------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (1,924) | (2,343) |
| Total tax expense | <u>(1,924)</u> | <u>(2,343)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|-----------------------|-----------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | 814 | 20,235 |
| Income tax using the statutory income tax rate of 28% | (228) | (5,666) |
| Net changes in fair value of financial assets and financial liabilities | (1,078) | 4,553 |
| Non-taxable income | 1,511 | 1,350 |
| Tax on securities subject to FDR | (2,129) | (2,580) |
| | (1,924) | (2,343) |
| Income tax expense as per Statement of Comprehensive Income | <u>(1,924)</u> | <u>(2,343)</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 1,627 | 1,509 |

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|----------------------------------------------------------------------|----------------------|---------------------|
| | 2019 | 2018 |
| (Loss)/profit after tax | (1,110) | 17,892 |
| Weighted average number of units ('000) | <u>95,582</u> | <u>114,541</u> |
| Basic and diluted (losses)/earnings per unit (cents per unit) | <u>(1.16)</u> | <u>15.62</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 0.72 | - | 784 |
| November 2017 (paid December 2017) | 31/03/2018 | 1.39 | - | 1,683 |
| May 2018 (paid June 2018) | 31/03/2019 | 0.23 | 200 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 2.47 | <u>2,401</u> | <u>-</u> |
| | | | <u>2,601</u> | <u>2,467</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 103,848,000 units on issue (2018: 87,119,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 18,339,000 (2018: 14,756,000) for total value of \$29,575,000 (2018: \$23,309,000).

The number of units redeemed during the year ended 31 March 2019 was 1,610,000 (2018: 35,740,000) for total value of \$2,698,000 (2018: \$58,372,000).

| | | |
|----------------------------------------------|-----------------------|----------------------|
| | 2019 | 2018 |
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 87,119 | 108,103 |
| Subscriptions received during the year | 18,339 | 14,756 |
| Redemptions made during the year | <u>(1,610)</u> | <u>(35,740)</u> |
| Units on issue at the end of the year | <u>103,848</u> | <u>87,119</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$1.58066 (2018: \$1.61827). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 96,529,304 units (2018: 82,341,448) valued at \$152,497,000 (2018: \$132,185,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$2,422,000 to SLI for the year ended 31 March 2019 (2018: \$2,404,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$346,000. Total net management fees from 1 October to 31 March 2019 amounted to \$285,000 with \$48,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$834,000 with outstanding management fees due to the Manager of: \$5,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$nil (2018: \$5,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$21,000 (2018: \$23,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

The Fund's market price risk is affected by actual changes in market prices. As the Fund invests in an Underlying Fund which tracks an Underlying Index, any change in the Underlying Index will result in a corresponding change in the assets at fair value through profit or loss.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$16,326,000 (2018: \$14,184,000).

EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-------------|---------------------|---------------|---------------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 72 | AA- | 156 | AA- |
| BNP Paribas | - | A+ | - | A |
| Westpac | <u>1,464</u> | AA- | <u>1,682</u> | AA- |
| | <u>1,536</u> | | <u>1,838</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investment in the Vanguard ETSE Europe ETF is considered readily realisable, as it is quoted on the New York Stock Exchange Arca. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning units in the Underlying Fund. Liquidity risk for the Fund is therefore low.

7d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in US dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the US dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$16,326,000 (2018: \$14,047,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|----------------------------------------------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Investments in equity securities held at fair value through profit or loss | 163,263 | 141,835 |
| Unsettled purchase of investments | - | (1,368) |

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of Europe Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Europe Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$1,648,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

EUROPE FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 99.1% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

EUROPE FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



GLOBAL BOND FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the Global Bond Fund

GLOBAL BOND FUND

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GLOBAL BOND FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

INVESTMENT MANAGER

PIMCO Australia Pty Limited
Level 19, 363 George Street
Sydney, New South Wales 2000
Australia

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

GLOBAL BOND FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The Global Bond Fund (the 'Fund') was created by an establishment deed dated 15 October 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

GLOBAL BOND FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------------------------------------------------------------|------|----------------------------|----------------------------|
| INCOME | | | |
| Dividend income | | 6 | 3 |
| Interest income | | 5,062 | 3,427 |
| Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss | | 5,778 | 1,198 |
| Foreign exchange gain | | - | 1,386 |
| Other income | | - | 2 |
| Total income | | <u>10,846</u> | <u>6,016</u> |
| EXPENSES | | | |
| Fund expenses | 9 | (1,031) | (755) |
| Foreign exchange loss | | (1,750) | - |
| Interest expense | | (135) | (83) |
| Miscellaneous expenses | | (77) | (38) |
| Total expenses | | <u>(2,993)</u> | <u>(876)</u> |
| Profit before tax | | 7,853 | 5,140 |
| Income tax expense | 1 | (2,200) | (1,440) |
| Profit after tax | | 5,653 | 3,700 |
| Other comprehensive income | | - | - |
| Total comprehensive income | | <u><u>5,653</u></u> | <u><u>3,700</u></u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 5 | <u><u>9.23</u></u> | <u><u>8.19</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

GLOBAL BOND FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|------------------------------|------------------------------|
| Unitholders' funds at the beginning of the year | | 170,305 | 130,491 |
| Total comprehensive income for the year | | <u>5,653</u> | <u>3,700</u> |
| Subscriptions from unitholders | 7 | 36,484 | 38,059 |
| Redemptions by unitholders | 7 | (8,114) | - |
| Distributions to unitholders | 6 | <u>(2,501)</u> | <u>(1,945)</u> |
| | | <u>25,869</u> | <u>36,114</u> |
| Unitholders' funds at the end of the year | | <u><u>201,827</u></u> | <u><u>170,305</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

GLOBAL BOND FUND

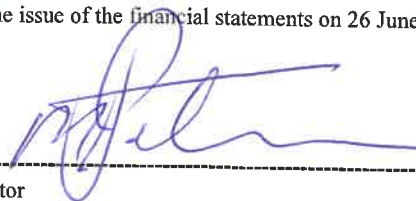
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------|------|------------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 3,891 | 2,595 |
| Balances due from brokers | 4 | 3,515 | 2,480 |
| Receivables | | 1,115 | 956 |
| Investments in interest-bearing securities at fair value through profit or loss | | 197,820 | 166,181 |
| Investments in equity securities at fair value through profit or loss | | 91 | 85 |
| Derivatives held for trading | 2 | 7,389 | 5,184 |
| Unsettled sales of investments | | <u>345</u> | <u>395</u> |
| TOTAL ASSETS | | <u>214,166</u> | <u>177,876</u> |
| LIABILITIES | | | |
| Fund expenses payable | 9 | (177) | (8) |
| Taxation payable | | (948) | (355) |
| Derivatives held for trading | 2 | (7,575) | (6,368) |
| Funds held for unit purchases | | (27) | (83) |
| Unsettled purchases of investments | | (3,611) | (757) |
| Other current liabilities | | <u>(1)</u> | <u>-</u> |
| TOTAL LIABILITIES | | <u>(12,339)</u> | <u>(7,571)</u> |
| UNITHOLDERS' FUNDS | | <u>201,827</u> | <u>170,305</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>214,166</u> | <u>177,876</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

GLOBAL BOND FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------------------------------------------------------------|------|------------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 6 | 3 |
| Interest income received | | 5,145 | 3,452 |
| Miscellaneous income received | | - | 2 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (862) | (753) |
| Taxation paid | | (1,604) | (1,314) |
| Interest paid | | (135) | (83) |
| Miscellaneous expenses paid | | (77) | (38) |
| Net cash flows from operating activities | | <u>2,473</u> | <u>1,269</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 289,454 | 215,134 |
| Net repayments from the Manager | | 1 | - |
| Balance due from broker movement | | - | 2,068 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | (315,379) | (252,917) |
| Balance due to broker movement | | (1,035) | - |
| Net cash flows from investing activities | | <u>(26,959)</u> | <u>(35,715)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 36,428 | 38,059 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (8,114) | - |
| Distributions paid to unitholders | | (2,501) | (1,945) |
| Net cash flows from financing activities | | <u>25,813</u> | <u>36,114</u> |
| Net increase in cash and cash equivalents | | 1,327 | 1,668 |
| Cash and cash equivalents at the beginning of the year | | 2,595 | 770 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | (31) | 157 |
| Cash and cash equivalents at the end of the year | | <u>3,891</u> | <u>2,595</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 5,653 | 3,700 |
| Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss | | (5,778) | (1,198) |
| Foreign exchange loss/(gain) | | 1,750 | (1,386) |
| Increase in taxation payable | | 593 | 126 |
| Increase in fund expenses payable | | 169 | 2 |
| Decrease in receivables | | 86 | 25 |
| Net cash flows from operating activities | | <u>2,473</u> | <u>1,269</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The Global Bond Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 15 October 2015 and commenced operations on 9 November 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is an investment fund that aims to outperform the Barclays Global Aggregate Index (the 'Index') by 1% per annum over a rolling three-year period, hedged in NZ dollars. As prescribed by the Trust Deed, the Fund invests in securities of all types represented in the Index and any other investment that is consistent with the objectives of the Fund.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Income recognition

Income is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

(a) Dividends

Dividend income is recognised when the right to receive payment is established.

(b) Interest income

Interest income is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(c) Changes in fair value of financial assets or financial liabilities

Changes in financial assets or financial liabilities at fair value through profit or loss are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point or cost. This includes both realised and unrealised gains and losses, but does not include dividends and interest income.

Financial assets and financial liabilities at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Liabilities

The Fund holds derivative financial instruments. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

As such, the Fund classifies all of its investments as financial assets or financial liabilities at fair value through profit or loss.

The Fund does not make short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, nor does it make use of short sales for arbitrage transactions.

(b) Recognition, derecognition and measurement

Purchases and sales of investments and derivatives are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment or derivatives. Financial assets or financial liabilities at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in profit or loss.

Financial assets or financial liabilities are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, all financial assets or financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise.

(c) Fair value estimation

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets and financial liabilities held by the Fund is the last traded price.

For investments with no active markets, fair values are determined using valuation techniques. Such techniques include: using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(d) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund and counterparty.

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, interest receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Balance due from/to brokers

Balance due from/to brokers includes margin cash and cash collateral that are identified in the Statement of Financial Position and not included as a component of cash and cash equivalents.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the Statement of Financial Position date. Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Repurchase agreements

Securities subject to repurchase agreements are recognised within the investments in "investments in interest-bearing securities at fair value through profit or loss".

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, by delivery to the investor of the cash amount and/or authorised investments that the Manager agrees to accept as consideration for, and determines to have a value equal to the price of the units issued.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of February, May, August and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable interest and gains and losses from its investments in securities after the deduction of management fees and other deductible expenses. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date. The temporary differences relate to unrealised gains and losses on preference shares.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Segment information

The Fund invests solely in marketable and debt securities. The Fund receives all of its income from its investments. Note 11 has a breakdown of interest income by geographical location.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are interest income and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the adoption of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|------------------------------|------------------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | <u>(2,200)</u> | <u>(1,440)</u> |
| Total tax expense | <u><u>(2,200)</u></u> | <u><u>(1,440)</u></u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|------------------------------|------------------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | <u>7,853</u> | <u>5,140</u> |
| Income tax using the statutory income tax rate of 28% | (2,199) | (1,439) |
| Net changes in fair value of financial assets and financial liabilities | - | - |
| Non-taxable income | - | - |
| Gross up of imputation credits | <u>-</u> | <u>-</u> |
| | - | - |
| Less imputation credits and other tax credits | <u>(1)</u> | <u>(1)</u> |
| Income tax expense as per Statement of Comprehensive Income | <u><u>(2,200)</u></u> | <u><u>(1,440)</u></u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 3,715 | 2,491 |

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. DERIVATIVES HELD FOR TRADING

The Fund holds the following derivative instruments:

(a) Forward foreign exchange contracts

Forward foreign exchange contracts are contractual obligations to buy or sell foreign currencies on a future date at a specified price. Forward foreign exchange contracts are settled on a net basis.

(b) Forward rate agreements

Forward rate agreements are contracts for borrowing or lending at a stated interest rate over a stated time period that begins at some time in the future.

(c) To-Be-Announced forwards (TBA)

To-Be-Announced forward contracts are contractual obligations to buy or sell mortgage-backed financial instruments on a future date at a specified price.

To-Be-Announced forward contracts are normally settled on a cash basis.

(d) Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts.

Interest rate swaps (IRS) are contractual arrangements to receive or pay a net amount based on changes in interest rates at a future date at a specified price.

Credit default swaps (CDS) are contractual obligations to make payments over time based on specified notional amounts in return for payout in the case of default by the underlying financial instruments.

Overnight index swaps (OIS) are an interest rate swap agreement where a fixed rate is swapped against a pre-determined published index of a daily overnight reference rate for an agreed period.

(e) Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of financial instrument at a stipulated price, within a stated period of time for the current fair value of the instruments.

(f) Futures

Futures are exchange-traded derivatives which represent agreements to buy/sell some underlying asset in the future for a specified price, established in an organised market.

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. DERIVATIVES HELD FOR TRADING (Continued)

| | 2019 | 2018 |
|--------------------------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| <i>Derivative assets held for trading :</i> | | |
| Forward foreign exchange contracts | 3,407 | 2,618 |
| To-Be-Announced forwards | 474 | 192 |
| Forward rate agreements | - | 15 |
| Interest rate swaps | 2,178 | 1,353 |
| Credit default swaps | 75 | 8 |
| Options | 47 | 101 |
| Futures | 1,208 | 897 |
| | <u>7,389</u> | <u>5,184</u> |
| <i>Derivative liabilities held for trading :</i> | | |
| Forward foreign exchange contracts | (4,607) | (4,411) |
| To-Be-Announced forwards | - | (40) |
| Interest rate swaps | (1,790) | (805) |
| Overnight interest rate swaps | (149) | - |
| Credit default swaps | (147) | (342) |
| Options | (134) | (297) |
| Futures | (748) | (473) |
| | <u>(7,575)</u> | <u>(6,368)</u> |

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

The following table categorises financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy. The amounts are based on the values recognised in the Statement of Financial Position.

There are no financial instruments categorised at level 3 (2018: none).

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

3. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

| | 2019 | | | 2018 | | |
|-------------------------------------------------------------------|-------------------|-------------------|-----------------|-------------------|-------------------|-----------------|
| | Level 1 \$'000 | Level 2 \$'000 | Total \$'000 | Level 1 \$'000 | Level 2 \$'000 | Total \$'000 |
| <i>Financial assets held at fair value through profit or loss</i> | | | | | | |
| Interest-bearing securities | - | 197,820 | 197,820 | - | 166,181 | 166,181 |
| Investments in listed equity securities | 91 | - | 91 | 85 | - | 85 |
| | <u>91</u> | <u>197,820</u> | <u>197,911</u> | <u>85</u> | <u>166,181</u> | <u>166,266</u> |
| <i>Derivative assets held for trading:</i> | | | | | | |
| Forward foreign exchange contracts | - | 3,407 | 3,407 | - | 2,618 | 2,618 |
| To-Be-Announced forwards | - | 474 | 474 | - | 192 | 192 |
| Forward rate agreements | - | - | - | - | 15 | 15 |
| Interest rate swaps | - | 2,178 | 2,178 | - | 1,353 | 1,353 |
| Credit default swaps | - | 75 | 75 | - | 8 | 8 |
| Options | - | 47 | 47 | - | 101 | 101 |
| Futures | 1,208 | - | 1,208 | 897 | - | 897 |
| | <u>1,208</u> | <u>6,181</u> | <u>7,389</u> | <u>897</u> | <u>4,287</u> | <u>5,184</u> |
| <i>Derivative liabilities held for trading:</i> | | | | | | |
| Forward foreign exchange contracts | - | (4,607) | (4,607) | - | (4,411) | (4,411) |
| To-Be-Announced forwards | - | - | - | - | (40) | (40) |
| Interest rate swaps | - | (1,790) | (1,790) | - | (805) | (805) |
| Overnight interest rate swaps | - | (149) | (149) | - | - | - |
| Credit default swaps | - | (147) | (147) | - | (342) | (342) |
| Options | - | (134) | (134) | - | (297) | (297) |
| Futures | (748) | - | (748) | (473) | - | (473) |
| | <u>(748)</u> | <u>(6,827)</u> | <u>(7,575)</u> | <u>(473)</u> | <u>(5,895)</u> | <u>(6,368)</u> |

The fair value of fixed interest securities at the reporting date are based on binding dealer price quotations and are categorised within level 2.

The fair value of exchange-traded futures and preference shares are based on quoted market prices and are included within level 1.

The Fund uses widely recognised valuation models for determining fair values of over-the-counter derivatives. For these financial instruments, inputs into models are market observable and are therefore included within level 2. The fair values of forward foreign exchange contracts are calculated by reference to current exchange rates for contracts with similar maturity and risk profiles. The fair values of To-Be-Announced forwards are calculated by reference to underlying bond prices. The fair value of credit default swaps and options are based on the quoted market prices and included in within level 2. The fair value of the interest rate swaps and forward rate agreements are calculated by the yield curve of underlying interest securities interest rates and is included in the within level 2.

4. BALANCES DUE FROM BROKERS

| | 2019 \$'000 | 2018 \$'000 |
|-----------------|----------------|----------------|
| Margin accounts | 342 | 88 |
| Cash collateral | 3,173 | 2,392 |
| | <u>3,515</u> | <u>2,480</u> |

Margin accounts represent cash deposits with brokers, transferred as collateral against open derivative contracts.

5. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

5. EARNINGS PER UNIT (Continued)

| | | |
|-------------------------------------------------------------|--------------------|--------------------|
| | 2019 | 2018 |
| Profit after tax | 5,653 | 3,700 |
| Weighted average number of units ('000) | <u>61,225</u> | <u>45,163</u> |
| Basic and diluted earnings per unit (cents per unit) | <u>9.23</u> | <u>8.19</u> |

6. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (June 2017) | 31/03/2018 | 1.20 | - | 505 |
| August 2017 (paid September 2017) | 31/03/2018 | 1.15 | - | 490 |
| November 2017 (paid December 2017) | 31/03/2018 | 1.09 | - | 485 |
| February 2018 (paid March 2018) | 31/03/2018 | 0.91 | - | 465 |
| May 2018 (paid June 2018) | 31/03/2019 | 0.94 | 540 | - |
| August 2018 (paid September 2018) | 31/03/2019 | 1.02 | 635 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 1.04 | 650 | - |
| February 2019 (paid March 2019) | 31/03/2019 | 1.08 | <u>676</u> | <u>-</u> |
| | | | <u>2,501</u> | <u>1,945</u> |

7. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 63,209,000 units on issue (2018: 54,176,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 11,613,000 (2018: 12,105,000) for total value of \$36,484,000 (2018: \$38,059,000).

The number of units redeemed during the year ended 31 March 2019 was 2,580,000 (2018: nil) for total value of \$8,114,000 (2018: \$nil).

| | | |
|----------------------------------------------|----------------------|----------------------|
| | 2019 | 2018 |
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 54,176 | 42,071 |
| Subscriptions received during the year | 11,613 | 12,105 |
| Redemptions made during the year | <u>(2,580)</u> | <u>-</u> |
| Units on issue at the end of the year | <u>63,209</u> | <u>54,176</u> |

The net asset value of each unit per the financial statements is \$3.19301 (2018: \$3.14355). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

8. MATURITY ANALYSIS

The Fund invests in international interest-bearing assets and other fixed income securities.

The tables below show an analysis of financial assets and financial liabilities analysed according to when they are expected to be recovered or settled.

| | Within 12 months \$'000 | 2019 Over 12 months \$'000 | Total \$'000 | Within 12 months \$'000 | 2018 Over 12 months \$'000 | Total \$'000 |
|---------------------------------------------------------------------------------|-------------------------------|-------------------------------------|------------------------|-------------------------------|-------------------------------------|-----------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | 3,891 | - | 3,891 | 2,595 | - | 2,595 |
| Balances due from brokers | 3,515 | - | 3,515 | 2,480 | - | 2,480 |
| Receivables | 1,115 | - | 1,115 | 956 | - | 956 |
| Investments in interest-bearing securities at fair value through profit or loss | 36,741 | 161,079 | 197,820 | 44,336 | 121,845 | 166,181 |
| Investments in equity securities at fair value through profit or loss | - | 91 | 91 | - | 85 | 85 |
| Derivatives held for trading | 5,101 | 2,288 | 7,389 | 3,675 | 1,509 | 5,184 |
| Unsettled sales of investments | 345 | - | 345 | 395 | - | 395 |
| Total assets | <u>50,708</u> | <u>163,458</u> | <u>214,166</u> | <u>54,437</u> | <u>123,439</u> | <u>177,876</u> |
| LIABILITIES | | | | | | |
| Fund expenses payable | (177) | - | (177) | (8) | - | (8) |
| Taxation payable | (948) | - | (948) | (355) | - | (355) |
| Derivatives held for trading | (5,327) | (2,248) | (7,575) | (5,194) | (1,174) | (6,368) |
| Funds held for unit purchases | (27) | - | (27) | (83) | - | (83) |
| Unsettled purchases of investments | (3,611) | - | (3,611) | (757) | - | (757) |
| Other current liabilities | (1) | - | (1) | - | - | - |
| Total liabilities | <u>(10,091)</u> | <u>(2,248)</u> | <u>(12,339)</u> | <u>(6,397)</u> | <u>(1,174)</u> | <u>(7,571)</u> |

9. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 55,663,834 units (2018: 46,145,199) valued at \$177,857,000 (2018: \$144,983,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$2,157,000 to SLI for the year ended 31 March 2019 (2018: \$1,812,000).

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

9. RELATED PARTY TRANSACTIONS (Continued)

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$500,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$153,000 with \$26,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$755,000 with outstanding management fees due to the Manager of \$8,000 as at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash retained for the purpose of distribution prior to the distribution being made. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$nil (2018: \$2,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$3,000 (2018: \$3,000).

Other related party transactions

As at 31 March 2019 the Fund had a payable to the Manager of \$1,000 (2018: \$nil).

Total audit fees for the year ended year ended 31 March 2019 amounted to \$5,000 (2018: \$5,000).

10. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, interest rate risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

10a. Market price risk

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Fund invests mainly in interest-bearing assets which are not directly subject to market price risk. However, the Fund holds futures contracts which are subject to market price risk. A 10% increase/decrease in market price as at 31 March 2019 will result in an increase/decrease in fair value on financial assets and financial liabilities through profit or loss of \$18,984,000 (2018: \$10,740,000).

The Fund also holds listed preference shares which are subject to market price risk, however this risk is not considered to be significant.

10b. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is a direct consequence of investing in fixed income securities (mainly debt securities) and derivatives (including interest rate swaps).

The Fund holds interest-bearing financial assets and liabilities - the values of which move up and down inversely to movements in market interest rates and is therefore exposed to interest rate risk.

The exposure of the Fund to interest rate risk is an investment decision taken by the Investment Manager and the size of that risk is limited in the mandate of the Investment Manager.

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

10. FINANCIAL RISK MANAGEMENT (Continued)

The following table analyses the Fund's interest rate risk exposure. The analysis has been prepared on the basis of the remaining period to contractual repricing or maturity dates.

| | 2019 | | | | | Total \$'000 |
|------------------------------------------------------------------|--------------------|---------------------------|----------------------|----------------------|-----------------|-----------------|
| | Within 6 months | Between 6-12 months | Between 1-2 years | Between 2-5 years | Over 5 years | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | |
| ASSETS | | | | | | |
| Cash and cash equivalents | 3,891 | - | - | - | - | 3,891 |
| International interest-bearing securities | 28,747 | 7,994 | 21,525 | 56,707 | 82,847 | 197,820 |
| Interest-bearing securities - repurchase agreements | - | - | - | - | - | - |
| Derivatives held for trading | 555 | 31 | 199 | 115 | 1,834 | 2,734 |
| Total financial assets subject to interest rate risk | 33,193 | 8,025 | 21,724 | 56,822 | 84,681 | 204,445 |
| LIABILITIES | | | | | | |
| Derivatives held for trading | - | (26) | (76) | (583) | (1,254) | (1,939) |
| Total financial liabilities subject to interest rate risk | - | (26) | (76) | (583) | (1,254) | (1,939) |

| | 2018 | | | | | Total \$'000 |
|------------------------------------------------------------------|--------------------|---------------------------|----------------------|----------------------|-----------------|-----------------|
| | Within 6 months | Between 6-12 months | Between 1-2 years | Between 2-5 years | Over 5 years | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | |
| ASSETS | | | | | | |
| Cash and cash equivalents | 2,595 | - | - | - | - | 2,595 |
| International interest-bearing securities | 39,826 | 4,510 | 12,660 | 44,995 | 64,190 | 166,181 |
| Derivatives held for trading | 208 | - | 31 | 512 | 803 | 1,554 |
| Total financial assets subject to interest rate risk | 42,629 | 4,510 | 12,691 | 45,507 | 64,993 | 170,330 |
| LIABILITIES | | | | | | |
| Derivatives held for trading | (40) | - | (562) | (61) | (182) | (845) |
| Total financial liabilities subject to interest rate risk | (40) | - | (562) | (61) | (182) | (845) |

The tables below show the sensitivity of the Fund's Statement of Comprehensive Income to a reasonably possible change in interest rates with all other variables remaining constant. The analysis is performed on the same basis for 31 March 2018. The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rates on:

- 1) The interest income for the year based on floating rate financial assets held at 31 March 2019.
- 2) Changes in fair value of investments for the year based on revaluing fixed rate financial assets at 31 March 2019.

| | 2019 | | | |
|-------------------------------------------|-----------------------------------|---------------------------------|--------------------------------------------------------|---------------------------------|
| | Sensitivity of interest income | | Sensitivity of changes in fair value of investments | |
| | 100 basis points increase | 100 basis points decrease | 100 basis points increase | 100 basis points decrease |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash and cash equivalents | 39 | (39) | - | - |
| International interest-bearing securities | 169 | (169) | (11,187) | 11,270 |
| Derivatives held for trading | - | - | 1,549 | (1,636) |

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

10. FINANCIAL RISK MANAGEMENT (Continued)

| | 2018 | | | |
|-------------------------------------------|--------------------------------|---------------------------|-----------------------------------------------------|---------------------------|
| | Sensitivity of interest income | | Sensitivity of changes in fair value of investments | |
| | 100 basis points increase | 100 basis points decrease | 100 basis points increase | 100 basis points decrease |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash and cash equivalents | 26 | (26) | - | - |
| International interest-bearing securities | 103 | (103) | (9,173) | 10,284 |
| Derivatives held for trading | - | - | 2,746 | (3,423) |

10c. Credit risk

Credit risk represents the risk that a counterparty to the financial instrument will fail to perform contractual obligations under a contract and cause the Fund to incur a loss.

With respect to credit risk arising from the financial assets (excluding repurchase agreements) of the Fund, the Fund's exposure to credit risk arises from the default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments, such as forward foreign exchange contracts, forward rate agreements, interest rate swaps and credit default swaps, at any time, is limited to those with net positive fair value (Note 2).

There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

The analysis below summarises the credit quality of the Fund's exposure rated externally by Standard & Poor's, Moody's or Fitch. There are no D rated securities held by the Fund (2018: none).

| | 2019 | | | | Total \$'000 |
|-------------------------------------------|----------------------|--------------------|----------------------|---------------------|-----------------|
| | AAA to AA- \$'000 | A+ to A- \$'000 | BBB+ to B- \$'000 | CCC+ to C \$'000 | |
| International interest-bearing securities | 82,688 | 54,527 | 57,449 | 3,156 | 197,820 |
| Derivatives held for trading | 121 | 5,539 | - | - | 5,660 |
| | <u>82,809</u> | <u>60,066</u> | <u>57,449</u> | <u>3,156</u> | <u>203,480</u> |

| | 2018 | | | | Total |
|-------------------------------------------|---------------|---------------|---------------|------------|----------------|
| | AAA to AA- | A+ to A- | BBB+ to B- | CCC+ to C | |
| International interest-bearing securities | 71,359 | 43,531 | 50,451 | 840 | 166,181 |
| Derivatives held for trading | 1,375 | 2,488 | 116 | - | 3,979 |
| | <u>72,734</u> | <u>46,019</u> | <u>50,567</u> | <u>840</u> | <u>170,160</u> |

As at 31 March 2019 all amounts due from brokers for sale of investments, cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be minimal as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

10. FINANCIAL RISK MANAGEMENT (Continued)

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ') and BNP Paribas Securities Services ('BNP Paribas').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance \$'000 | 2019 Credit rating | Balance \$'000 | 2018 Credit rating |
|-------------|---------------------------------|-----------------------------------------------|---------------------------------|-----------------------------------------------|
| ANZ | 27 | AA- | 83 | AA- |
| BNP Paribas | 1,553 | A+ | 2,512 | A |
| Westpac | <u>2,311</u> | AA- | <u>-</u> | AA- |
| | <u>3,891</u> | | <u>2,595</u> | |

Balances due from brokers

Balances due from brokers represent margin accounts and cash collaterals. At the reporting date, the Fund's futures margin accounts are held with Morgan Stanley (A+ S&P credit rating) (2018: A+). The Fund's cash collateral balances are also mainly held with Morgan Stanley.

The Investment Manager is responsible for assessing and monitoring the creditworthiness of borrower, guarantors, issuers of debt securities, acceptors of bills of exchange, or other sources of credit risk.

10d. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund is able to generate sufficient cash on a timely manner to meet its financial commitments and normal level of redemptions. The Investment Manager ensures that the Fund has appropriate liquidity levels within allowable benchmark ranges. In the event of abnormal levels of redemptions, timing of payments may depend on the ability of the Fund to realise its underlying investments on a timely basis, subject to provisions in the Trust Deed.

The table below analyses the net settled derivative financial assets and financial liabilities into relevant maturity groupings based on the remaining periods at balance date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

The contractual cash flows are based on the spot rate at the reporting date.

| | Statement of Financial Position \$000 | 2019 | | | | |
|------------------------|----------------------------------------------------------------------------|---------------------------------------------------------|-----------------|-------------------|-------------------|---------------|
| | | Contractual cash flows \$000 | Within 6 | Between 6- | Between 1- | Over 5 |
| | | | months | 12 months | 5 years | years |
| | | \$000 | \$000 | \$000 | \$000 | |
| Derivative assets | 7,389 | | | | | |
| <i>Inflow</i> | | 518,070 | 512,442 | 1,354 | 1,788 | 2,486 |
| <i>Outflow</i> | | (511,413) | (507,213) | (1,155) | (1,187) | (1,858) |
| Derivative liabilities | (7,575) | | | | | |
| <i>Inflow</i> | | 604,640 | 598,709 | 1,381 | 1,588 | 2,962 |
| <i>Outflow</i> | | (612,996) | (604,395) | (2,517) | (2,349) | (3,735) |

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

10. FINANCIAL RISK MANAGEMENT (Continued)

2018

| | Statement of Financial Position \$000 | Contractual cash flows \$000 | Within 6 months \$000 | Between 6- 12 months \$000 | Between 1- 5 years \$000 | Over 5 years \$000 |
|------------------------|------------------------------------------------|------------------------------------|-----------------------------|----------------------------------|--------------------------------|--------------------------|
| Derivative assets | 5,184 | | | | | |
| <i>Inflow</i> | | 370,648 | 363,203 | 6,424 | 929 | 92 |
| <i>Outflow</i> | | (366,409) | (359,630) | (6,149) | (563) | (67) |
| Derivative liabilities | (6,368) | | | | | |
| <i>Inflow</i> | | 383,453 | 378,067 | 1,248 | 1,015 | 3,123 |
| <i>Outflow</i> | | (390,557) | (383,029) | (1,641) | (1,841) | (4,046) |

10e. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds financial instruments denominated in currencies other than the New Zealand dollar, the functional currency, at year end. The Fund is therefore subject to risk due to fluctuations in the prevailing currency exchange rate. A change in exchange rates would impact the New Zealand dollar equivalent market price of the financial instruments in which the Fund invests.

The Fund enters into forward exchange contracts designed to economically hedge the foreign exposure of the underlying investments. The Fund is to be economically hedged to New Zealand dollars between 95% and 105%.

The currency risk disclosures have been prepared on the basis of the Fund's direct investments.

The table below summarises the Fund's exposure of the financial instruments to currency risk in New Zealand dollar value .

2019

| | AUD \$'000 | CAD \$'000 | EUR \$'000 | GBP \$'000 | JPY \$'000 | USD \$'000 | Other \$'000 |
|-----------------------------------------------------------------|---------------|---------------|----------------|---------------|---------------|----------------|-----------------|
| Assets and liabilities | | | | | | | |
| Foreign currency cash balances held (NZD) | (72) | (129) | (581) | 204 | 191 | 5,358 | 96 |
| Investment securities held at fair value through profit or loss | 1,524 | 944 | 24,140 | 17,124 | 25,864 | 112,698 | 15,618 |
| Derivatives held for trading | (2,250) | (2,953) | (32,868) | (14,611) | (21,111) | (115,781) | (11,012) |
| Receivables/(payables) | 4 | 1,913 | 105 | (663) | 7 | (3,438) | (82) |
| Total financial assets and liabilities | (794) | (225) | (9,204) | 2,054 | 4,951 | (1,163) | 4,620 |

2018

| | AUD \$'000 | CAD \$'000 | EUR \$'000 | GBP \$'000 | JPY \$'000 | USD \$'000 | Other \$'000 |
|-----------------------------------------------------------------|---------------|---------------|----------------|---------------|---------------|-----------------|-----------------|
| Assets and liabilities | | | | | | | |
| Foreign currency cash balances held (NZD) | 36 | (23) | 149 | 156 | 6 | 3,289 | 152 |
| Investment securities held at fair value through profit or loss | 2,269 | 7,641 | 26,256 | 16,070 | 20,176 | 76,471 | 17,383 |
| Derivatives held for trading | (853) | (7,648) | (30,295) | (12,215) | (19,822) | (97,991) | (2,394) |
| Receivables/(payables) | 5 | 42 | 509 | (665) | - | 494 | 206 |
| Total financial assets and liabilities | 1,457 | 12 | (3,381) | 3,346 | 360 | (17,737) | 15,347 |

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

10. FINANCIAL RISK MANAGEMENT (Continued)

The table below summarises the sensitivity analysis in NZD currency to an increase or decrease in the exchange rate with all other variables remaining constant, where the Fund has significant currency risk exposure, based on an assumed increase/decrease by the percentage disclosed in the table.

| | 2019 | | 2018 | |
|-----------------------------------------------------------------|------------------------------------------|------------------------|-------------------------------------------|------------------------|
| | Profit or loss and Unitholders' Funds | | Profit or loss and Unit Holders' Funds | |
| | 10% increase \$'000 | 10% decrease \$'000 | 10% increase \$'000 | 10% decrease \$'000 |
| Assets and liabilities | | | | |
| Foreign currency cash balances held (NZD) | (507) | 507 | (376) | 376 |
| Investment securities held at fair value through profit or loss | (19,791) | 19,791 | (16,627) | 16,627 |
| Derivatives held for trading | 20,059 | (20,059) | 17,122 | (17,122) |
| Receivables/(payables) | 215 | (215) | (59) | 59 |
| | <u>(24)</u> | <u>24</u> | <u>60</u> | <u>(60)</u> |

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

10. FINANCIAL RISK MANAGEMENT (Continued)

10f. Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

The following table presents the recognised derivatives that are subject to offsetting, or other similar arrangements but not offset, as at 31 March 2019 and 31 March 2018.

| | 2019 | | | | | |
|------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------|--------------------------------------------------------------------|------------|
| | Gross amounts of recognised financial instruments | Gross amounts of recognised financial instruments set-off in the statement of financial position | Net amounts of financial instruments presented in the statement of financial position | Financial instruments | Related amounts not set-off in the statement of financial position | |
| | | | | | Cash collateral received/pledged | Net amount |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Total derivative assets | 6,915 | - | 6,915 | (4,162) | - | 2,753 |
| Total derivative liabilities | (7,575) | - | (7,575) | 4,162 | - | (3,413) |

| | 2018 | | | | | |
|------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------|--------------------------------------------------------------------|------------|
| | Gross amounts of recognised financial instruments | Gross amounts of recognised financial instruments set-off in the statement of financial position | Net amounts of financial instruments presented in the statement of financial position | Financial instruments | Related amounts not set-off in the statement of financial position | |
| | | | | | Cash collateral received/pledged | Net amount |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Total derivative assets | 4,992 | - | 4,992 | (1,681) | - | 3,311 |
| Total derivative liabilities | (6,329) | - | (6,329) | 1,681 | - | (4,648) |

11. SEGMENT INFORMATION

The table below analyses the Fund's interest income grouped by geographical location.

| | 2019 \$'000 | 2018 \$'000 |
|--------------------------------|----------------|----------------|
| United Kingdom | 414 | 326 |
| Euro Zone | 788 | 669 |
| United States of America (USA) | 3,728 | 2,189 |
| Americas (excluding USA) | 56 | 206 |
| Other | 76 | 37 |
| | <u>5,062</u> | <u>3,427</u> |

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

12. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

13. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of Global Bond Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Global Bond Fund (the 'fund') on pages 3 to 24:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$2,142,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

GLOBAL BOND FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 92.4% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise bonds or other simple fixed interest instruments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed fixed interest instruments to externally quoted prices and unlisted fixed interest investments to broker quotes. Where externally quoted prices or broker quotes are not available we applied valuation methods using observable market interest rates to assess the valuation
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept

GLOBAL BOND FUND



or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



NZ BOND FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the NZ Bond Fund

NZ BOND FUND

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NZ BOND FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

INVESTMENT MANAGER

Nikko Asset Management New Zealand Limited
Level 9, Vero Centre, 48 Shortland Street
Auckland, 1010
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

NZ BOND FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The NZ Bond Fund (the 'Fund') was created by an establishment deed dated 15 October 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

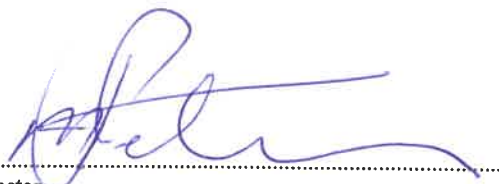
It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

NZ BOND FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| INCOME | | | |
| Interest income | | 11,529 | 9,480 |
| Net changes in fair value of financial assets at fair value through profit or loss | | 5,041 | 3,094 |
| Other income | | <u>33</u> | <u>11</u> |
| Total income | | <u>16,603</u> | <u>12,585</u> |
| EXPENSES | | | |
| Fund expenses | 7 | (1,396) | (1,119) |
| Miscellaneous expenses | | <u>(1)</u> | <u>(1)</u> |
| Total expenses | | <u>(1,397)</u> | <u>(1,120)</u> |
| Profit before tax | | 15,206 | 11,465 |
| Income tax expense | 1 | <u>(4,257)</u> | <u>(3,210)</u> |
| Profit after tax | | 10,949 | 8,255 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>10,949</u> | <u>8,255</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>12.63</u> | <u>11.95</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ BOND FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|-----------------------|-----------------------|
| Unitholders' funds at the beginning of the year | | 211,792 | 202,887 |
| Total comprehensive income for the year | | <u>10,949</u> | <u>8,255</u> |
| Subscriptions from unitholders | 5 | 88,429 | 6,258 |
| Redemptions by unitholders | 5 | (15,734) | - |
| Distributions to unitholders | 4 | <u>(7,375)</u> | <u>(5,608)</u> |
| | | <u>65,320</u> | <u>650</u> |
| Unitholders' funds at the end of the year | | <u><u>288,061</u></u> | <u><u>211,792</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ BOND FUND

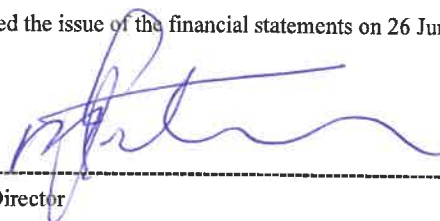
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 5,314 | 540 |
| Bank term deposits | | 8,251 | - |
| Receivables | | 2,595 | 2,152 |
| Investments in interest-bearing securities at fair value through profit or loss | | 274,784 | 211,383 |
| Unsettled sales of investments | | <u>3,930</u> | <u>-</u> |
| TOTAL ASSETS | | <u>294,874</u> | <u>214,075</u> |
| LIABILITIES | | | |
| Fund expenses payable | 7 | (205) | (9) |
| Taxation payable | | (3,104) | (2,226) |
| Distribution payable to unitholders | | (3) | (2) |
| Funds held for unit purchases | | (99) | (45) |
| Unsettled purchases of investments | | (3,400) | - |
| Other current liabilities | | <u>(2)</u> | <u>(1)</u> |
| TOTAL LIABILITIES | | <u>(6,813)</u> | <u>(2,283)</u> |
| UNITHOLDERS' FUNDS | | <u>288,061</u> | <u>211,792</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>294,874</u> | <u>214,075</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ BOND FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|------------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Interest income received | | 11,035 | 9,412 |
| Miscellaneous income received | | 33 | 11 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (1,200) | (1,119) |
| Taxation paid | | (3,379) | (863) |
| Miscellaneous expenses paid | | (1) | (1) |
| Net cash flows from operating activities | | <u>6,488</u> | <u>7,440</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 73,366 | 76,224 |
| Net repayments from the Manager | | 1 | - |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | (140,456) | (85,385) |
| Net repayments to the Manager | | - | (1) |
| Net cash flows from investing activities | | <u>(67,089)</u> | <u>(9,162)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 88,483 | 6,274 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (15,734) | - |
| Distributions paid to unitholders | | (7,374) | (5,609) |
| Net cash flows from financing activities | | <u>65,375</u> | <u>665</u> |
| Net increase/(decrease) in cash and cash equivalents | | 4,774 | (1,057) |
| Cash and cash equivalents at the beginning of the year | | <u>540</u> | <u>1,597</u> |
| Cash and cash equivalents at the end of the year | | <u>5,314</u> | <u>540</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 10,949 | 8,255 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (5,041) | (3,094) |
| Decrease in taxation receivable | | - | 121 |
| Increase in taxation payable | | 878 | 2,226 |
| Increase in fund expenses payable | | 196 | - |
| Increase in receivables | | (443) | (68) |
| Increase in accrued interest on term deposits | | (51) | - |
| Net cash flows from operating activities | | <u>6,488</u> | <u>7,440</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The NZ Bond Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 15 October 2015 and commenced operations on 6 November 2015.

The Fund's units are quoted on the NZX Main Board. The Fund holds a portfolio of fixed and floating income securities. It is an investment fund that aims to outperform the S&P/NZX A-Grade Corporate Bond Index (the 'Index') over a rolling three year period. As prescribed by the Trust Deed, the Fund can invest in securities of all types represented in the Index and any other investment that is consistent with the objectives of the Fund.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Income recognition

Income is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

(a) Interest income

Interest income is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(b) Changes in fair value of financial assets

Changes in financial assets at fair value through profit or loss are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point or cost. This includes both realised and unrealised gains and losses, but does not include interest income.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Financial assets at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise.

NZ BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets, other than those classified at fair value through profit or loss, are recognised at fair value including directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the debt instruments are derecognised or impaired, as well as through the amortisation process.

(c) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

For investments with no active markets, fair values are determined using valuation techniques. Such techniques include: using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgmental inputs to a minimum.

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, interest receivable, bank term deposits and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, by delivery to the investor of the cash amount and/or authorised investments that the Manager agrees to accept as consideration for, and determines to have a value equal to the price of the units issued.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

NZ BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of February, May, August and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable interest and gains and losses from its investments in securities after the deduction of management fees and other deductible expenses. The Fund pays tax to cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in New Zealand marketable and debt securities. The Fund receives all of its income from its investments.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are interest income and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

NZ BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (4,257) | (3,210) |
| Total tax expense | <u>(4,257)</u> | <u>(3,210)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | 15,206 | 11,465 |
| Income tax using the statutory income tax rate of 28% | <u>(4,258)</u> | <u>(3,210)</u> |
| Net changes in fair value of financial assets and financial liabilities | - | - |
| Non-taxable income | - | - |
| | <u>(4,258)</u> | <u>(3,210)</u> |
| Less imputation credits and other tax credits | 1 | - |
| Income tax expense as per Statement of Comprehensive Income | <u>(4,257)</u> | <u>(3,210)</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 3,509 | 2,120 |

NZ BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

There are no financial instruments are categorised at level 3 (2018: none).

The fair value of bank term deposits with maturities of up to twelve months is deemed to be equivalent to the face value plus accrued interest and have been categorised as level 2 in the hierarchy.

The fair value of fixed interest securities at the reporting date are based on binding dealer price quotations and are categorised within level 2.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|-------------------------------------------------------------|--------------|--------------|
| | 2019 | 2018 |
| Profit after tax | 10,949 | 8,255 |
| Weighted average number of units ('000) | 86,683 | 69,086 |
| Basic and diluted earnings per unit (cents per unit) | 12.63 | 11.95 |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 2.22 | - | 1,525 |
| August 2017 (paid September 2017) | 31/03/2018 | 1.65 | - | 1,133 |
| November 2017 (paid December 2017) | 31/03/2018 | 2.23 | - | 1,546 |
| February 2018 (paid March 2018) | 31/03/2018 | 2.01 | - | 1,404 |
| May 2018 (paid June 2018) | 31/03/2019 | 2.28 | 1,615 | - |
| August 2018 (paid September 2018) | 31/03/2019 | 1.43 | 1,255 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 2.93 | 2,602 | - |
| February 2019 (paid March 2019) | 31/03/2019 | 2.08 | 1,903 | - |
| | | | 7,375 | 5,608 |

NZ BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 94,052,000 units on issue (2018: 70,009,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 29,226,000 (2018: 2,075,000) for total value of \$88,429,000 (2018: \$6,258,000).

The number of units redeemed during the year ended 31 March 2019 was 5,183,000 (2018: nil) for total value of \$15,734,000 (2018: \$nil).

| | 2019 '000 | 2018 '000 |
|----------------------------------------------|----------------------|----------------------|
| Movement in the number of units | | |
| Balance at the beginning of the year | 70,009 | 67,934 |
| Subscriptions received during the year | 29,226 | 2,075 |
| Redemptions made during the year | <u>(5,183)</u> | <u>-</u> |
| Units on issue at the end of the year | <u>94,052</u> | <u>70,009</u> |

The net asset value of each unit per the financial statements is \$3.06278 (2018: \$3.02521). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

6. MATURITY ANALYSIS

The Fund invests in interest-bearing assets and other New Zealand bond investments.

The tables below show an analysis of financial assets and financial liabilities analysed according to when they are expected to be recovered or settled.

| | 2019 | | | 2018 | | |
|---------------------------------------------------------------------------------|-------------------------------|-----------------------------|-----------------------|-------------------------------|-----------------------------|-----------------------|
| | Within 12 months \$'000 | Over 12 months \$'000 | Total \$'000 | Within 12 months \$'000 | Over 12 months \$'000 | Total \$'000 |
| ASSETS | | | | | | |
| Cash and cash equivalents | 5,314 | - | 5,314 | 540 | - | 540 |
| Bank term deposits | 8,251 | - | 8,251 | - | - | - |
| Receivables | 2,595 | - | 2,595 | 2,152 | - | 2,152 |
| Investments in interest-bearing securities at fair value through profit or loss | 5,136 | 269,648 | 274,784 | 6,299 | 205,084 | 211,383 |
| Unsettled sales of investments | <u>3,930</u> | <u>-</u> | <u>3,930</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total assets | <u>25,226</u> | <u>269,648</u> | <u>294,874</u> | <u>8,991</u> | <u>205,084</u> | <u>214,075</u> |
| LIABILITIES | | | | | | |
| Fund expenses payable | (205) | - | (205) | (9) | - | (9) |
| Taxation payable | (3,104) | - | (3,104) | (2,226) | - | (2,226) |
| Distribution payable to unitholders | (3) | - | (3) | (2) | - | (2) |
| Funds held for unit purchases | (99) | - | (99) | (45) | - | (45) |
| Unsettled purchases of investments | (3,400) | - | (3,400) | - | - | - |
| Other current liabilities | <u>(2)</u> | <u>-</u> | <u>(2)</u> | <u>(1)</u> | <u>-</u> | <u>(1)</u> |
| Total liabilities | <u>(6,813)</u> | <u>-</u> | <u>(6,813)</u> | <u>(2,283)</u> | <u>-</u> | <u>(2,283)</u> |

NZ BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme (“SLI”), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 87,156,557 units (2018: 65,965,638) valued at \$266,902,000 (2018: \$199,527,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$6,866,000 to SLI for the year ended 31 March 2019 (2018: \$5,351,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$656,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$496,000, with \$82,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$1,119,000 with outstanding management fees due to the Manager of \$9,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash retained for the purpose of distribution prior to the distribution being made. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$nil (2018: \$2,000). Total interest earned on cash at banks for the period ended 31 March 2019 amounted to \$8,000 (2018: \$7,000).

Other related party transaction

As at 31 March 2019 the Fund had a payable to the Manager of \$2,000 (2018: payable to the Manager of \$1,000).

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

8. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund’s activities expose it to a variety of financial risks: interest rate risk, credit risk and liquidity risk. The risk management policies used by the Fund are detailed below:

8a. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is a direct consequence of investing in fixed income securities (mainly debt securities).

The Fund holds interest-bearing financial assets and liabilities - the values of which move up and down inversely to movements in market interest rates and is therefore exposed to interest rate risk.

The exposure of the Fund to interest rate risk is an investment decision taken by the Investment Manager and the size of that risk is limited in the mandate of the Investment Manager.

NZ BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

8. FINANCIAL RISK MANAGEMENT (Continued)

The following table analyses the Fund's interest rate risk exposure. The analysis has been prepared on the basis of the remaining period to contractual repricing or maturity dates.

| | 2019 | | | | | Total \$'000 |
|-------------------------------------------------------------|------------------------------|-------------------------------------|--------------------------------|--------------------------------|---------------------------|-----------------------|
| | Within 6 months \$'000 | Between 6-12 months \$'000 | Between 1-2 years \$'000 | Between 2-5 years \$'000 | Over 5 years \$'000 | |
| | ASSETS | | | | | |
| Cash and cash equivalents | 5,314 | - | - | - | - | 5,314 |
| Interest-bearing securities | 631 | 4,504 | 12,932 | 202,760 | 53,957 | 274,784 |
| Bank term deposits | 2,047 | 6,204 | - | - | - | 8,251 |
| Total financial assets subject to interest rate risk | <u>7,992</u> | <u>10,708</u> | <u>12,932</u> | <u>202,760</u> | <u>53,957</u> | <u>288,349</u> |

| | 2018 | | | | | Total \$'000 |
|-------------------------------------------------------------|------------------------------|-------------------------------------|--------------------------------|--------------------------------|---------------------------|-----------------------|
| | Within 6 months \$'000 | Between 6-12 months \$'000 | Between 1-2 years \$'000 | Between 2-5 years \$'000 | Over 5 years \$'000 | |
| | ASSETS | | | | | |
| Cash and cash equivalents | 540 | - | - | - | - | 540 |
| Interest-bearing securities | 6,299 | - | 17,366 | 147,487 | 40,231 | 211,383 |
| Total financial assets subject to interest rate risk | <u>6,839</u> | <u>-</u> | <u>17,366</u> | <u>147,487</u> | <u>40,231</u> | <u>211,923</u> |

The tables below show the sensitivity of the Fund's Statement of Comprehensive Income to a reasonably possible change in interest rates with all other variables remaining constant. The analysis is performed on the same basis for 31 March 2018. The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rates on:

- 1) The interest income for the year based on floating rate financial assets held at 31 March 2019.
- 2) Changes in fair value of investments for the year based on revaluing fixed rate financial assets at 31 March 2019.

| | 2019 | | | |
|-----------------------------|-------------------------------------------|-------------------------------------------|--------------------------------------------------------|-------------------------------------------|
| | Sensitivity of interest income | | Sensitivity of changes in fair value of investments | |
| | 100 basis points increase \$'000 | 100 basis points decrease \$'000 | 100 basis points increase \$'000 | 100 basis points decrease \$'000 |
| Cash and cash equivalents | 53 | (53) | - | - |
| Interest-bearing securities | 39 | (39) | (9,483) | 10,000 |

| | 2018 | | | |
|-----------------------------|-------------------------------------------|-------------------------------------------|--------------------------------------------------------|-------------------------------------------|
| | Sensitivity of interest income | | Sensitivity of changes in fair value of investments | |
| | 100 basis points increase \$'000 | 100 basis points decrease \$'000 | 100 basis points increase \$'000 | 100 basis points decrease \$'000 |
| Cash and cash equivalents | 5 | (5) | - | - |
| Interest-bearing securities | 27 | (27) | (7,225) | 7,587 |

NZ BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

8. FINANCIAL RISK MANAGEMENT (Continued)

8b. Credit risk

Credit risk represents the risk that a counterparty to the financial instrument will fail to perform contractual obligations under a contract and cause the Fund to incur a loss.

With respect to credit risk arising from the financial assets of the Fund, the Fund's exposure to credit risk arises from the default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The Fund holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

The analysis below summarises the credit quality of the Fund's exposure rated externally by Standard & Poor's, Moody's or Fitch. There are no D rated securities held by the Fund (2018: none).

| | 2019 | | | | |
|------------------------------------------|------------------------------|----------------------------|------------------------------|------------------------------|-------------------------|
| | AAA to AA- \$'000 | A+ to A- \$'000 | BBB+ to B- \$'000 | CCC+ to C- \$'000 | Total \$'000 |
| NZ government and local government bonds | 51,033 | - | - | - | 51,033 |
| Convertible notes | 66,061 | 68,929 | 88,761 | - | 223,751 |
| NZ bank term deposits | 8,251 | - | - | - | 8,251 |
| | <u>125,345</u> | <u>68,929</u> | <u>88,761</u> | <u>-</u> | <u>283,035</u> |
| | 2018 | | | | |
| | AAA to AA- \$'000 | A+ to A- \$'000 | BBB+ to B- \$'000 | CCC+ to C- \$'000 | Total \$'000 |
| NZ bank bills | 1,168 | - | - | - | 1,168 |
| NZ government and local government bonds | 27,109 | - | - | - | 27,109 |
| Convertible notes | 53,760 | 51,916 | 77,430 | - | 183,106 |
| | <u>82,037</u> | <u>51,916</u> | <u>77,430</u> | <u>-</u> | <u>211,383</u> |

At 31 March 2019 all amounts due from brokers, cash and cash equivalents are held with counterparties with a credit rating of AA- (2018: AA-) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | 2019 | | 2018 | |
|---------|---------------------------|--------------------------|---------------------------|--------------------------|
| | Balance \$'000 | Credit rating | Balance \$'000 | Credit rating |
| ANZ | 101 | AA- | 46 | AA- |
| Westpac | 5,213 | AA- | 494 | AA- |
| | <u>5,314</u> | | <u>540</u> | |

NZ BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

8. FINANCIAL RISK MANAGEMENT (Continued)

8c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund is able to generate sufficient cash on a timely manner to meet its financial commitments and normal level of redemptions. The Investment Manager ensures that the Fund has appropriate liquidity levels within allowable benchmark ranges. In the event of abnormal levels of redemptions, timing of payments may depend on the ability of the Fund to realise its underlying investments on a timely basis, subject to provisions in the Trust Deed.

9. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

10. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of NZ Bond Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of NZ Bond Fund (the 'fund') on pages 3 to 16:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$2,949,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

NZ BOND FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 93.2% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise bonds or other simple fixed interest instruments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed fixed interest instruments to externally quoted prices and unlisted fixed interest investments to broker quotes. Where externally quoted prices or broker quotes are not available we applied valuation methods using observable market interest rates to assess the valuation
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept

NZ BOND FUND



or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



NZ CASH FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the NZ Cash Fund

NZ CASH FUND

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NZ CASH FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

INVESTMENT MANAGER

Nikko Asset Management New Zealand Limited
Level 9, Vero Centre, 48 Shortland Street
Auckland, 1010
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

NZ CASH FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The NZ Cash Fund (the 'Fund') was created by an establishment deed dated 15 October 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

NZ CASH FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|---------------------|---------------------|
| INCOME | | | |
| Interest income | | 3,525 | 3,965 |
| Net changes in fair value of financial assets at fair value through profit or loss | | <u>(181)</u> | <u>(136)</u> |
| Total income | | <u>3,344</u> | <u>3,829</u> |
| EXPENSES | | | |
| Fund expenses | 7 | (376) | (406) |
| Miscellaneous expenses | | <u>(1)</u> | <u>-</u> |
| Total expenses | | <u>(377)</u> | <u>(406)</u> |
| Profit before tax | | 2,967 | 3,423 |
| Income tax expense | 1 | <u>(831)</u> | <u>(958)</u> |
| Profit after tax | | 2,136 | 2,465 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>2,136</u> | <u>2,465</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>5.70</u> | <u>5.97</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ CASH FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|-----------------------------|------------------------------|
| Unitholders' funds at the beginning of the year | | 116,246 | 125,538 |
| Total comprehensive income for the year | | <u>2,136</u> | <u>2,465</u> |
| Subscriptions from unitholders | 5 | - | 730 |
| Redemptions by unitholders | 5 | (32,293) | (9,850) |
| Distributions to unitholders | 4 | <u>(2,380)</u> | <u>(2,637)</u> |
| | | <u>(34,673)</u> | <u>(11,757)</u> |
| Unitholders' funds at the end of the year | | <u><u>83,709</u></u> | <u><u>116,246</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ CASH FUND

**STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019**

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------|------|----------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 30 | 1,028 |
| Bank term deposits | | 44,862 | 58,737 |
| Receivables | | 310 | 283 |
| Investments in interest-bearing securities at fair value through profit or loss | | <u>38,665</u> | <u>56,845</u> |
| TOTAL ASSETS | | <u>83,867</u> | <u>116,893</u> |
| LIABILITIES | | | |
| Fund expenses payable | 7 | (67) | (3) |
| Taxation payable | | (83) | (635) |
| Funds held for unit purchases | | (7) | (8) |
| Other current liabilities | | <u>(1)</u> | <u>(1)</u> |
| TOTAL LIABILITIES | | <u>(158)</u> | <u>(647)</u> |
| UNITHOLDERS' FUNDS | | <u>83,709</u> | <u>116,246</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>83,867</u> | <u>116,893</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.

Director

Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ CASH FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|------------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Interest income received | | 3,757 | 3,898 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (312) | (406) |
| Taxation paid | | (1,383) | (659) |
| Miscellaneous expenses paid | | (1) | - |
| Net cash flows from operating activities | | <u>2,061</u> | <u>2,833</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 199,174 | 182,603 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | (167,559) | (173,965) |
| Net cash flows from investing activities | | <u>31,615</u> | <u>8,638</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | - | 737 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (32,294) | (9,850) |
| Distributions paid to unitholders | | (2,380) | (2,637) |
| Net cash flows from financing activities | | <u>(34,674)</u> | <u>(11,750)</u> |
| Net decrease in cash and cash equivalents | | (998) | (279) |
| Cash and cash equivalents at the beginning of the year | | <u>1,028</u> | <u>1,307</u> |
| Cash and cash equivalents at the end of the year | | <u>30</u> | <u>1,028</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 2,136 | 2,465 |
| Net changes in fair value of financial assets at fair value through profit or loss | | 181 | 136 |
| (Decrease)/increase in taxation payable | | (552) | 299 |
| Increase in fund expenses payables | | 64 | - |
| (Increase)/decrease in receivables | | (27) | 140 |
| Decrease/(increase) in accrued interest on term deposits | | 259 | (207) |
| Net cash flows from operating activities | | <u>2,061</u> | <u>2,833</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ CASH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The NZ Cash Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 15 October 2015 and commenced operations on 6 November 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is an investment fund that aims to outperform the S&P/NZX 90-Day Bank Bill Index (the 'Index') over a rolling one-year period. As prescribed by the Trust Deed, the Fund invests in short-term interest-bearing assets and other cash and cash equivalent investments of all types represented in the Index and any other investments that are consistent with the objectives of the Fund.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Income recognition

Income is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

(a) Interest income

Interest income is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(b) Changes in fair value of financial assets

Changes in financial assets at fair value through profit or loss are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point or cost. This includes both realised and unrealised gains and losses, but does not include interest income.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments (apart from bank term deposits) are measured at fair value through profit or loss.

NZ CASH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Financial assets at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise.

Financial assets, other than those classified at fair value through profit or loss, are recognised at fair value including directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the debt instruments are derecognised or impaired, as well as through the amortisation process.

(c) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

For investments with no active markets, fair values are determined using valuation techniques. Such techniques include: using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgmental inputs to a minimum.

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, interest receivable, bank term deposits and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

NZ CASH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, by delivery to the investor of the cash amount and/or authorised investments that the Manager agrees to accept as consideration for, and determines to have a value equal to the price of the units issued.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of February, May, August and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable interest and gains and losses from its investments in securities after the deduction of management fees and other deductible expenses. The Fund pays tax to cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely New Zealand short-term interest-bearing securities and other cash and cash equivalent investments. The Fund receives all of its income from its investments.

NZ CASH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are interest income and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

NZ CASH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (831) | (958) |
| Total tax expense | <u>(831)</u> | <u>(958)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | 2,967 | 3,423 |
| Income tax using the statutory income tax rate of 28% | (831) | (958) |
| Net changes in fair value of financial assets and financial liabilities | - | - |
| Non-taxable income | - | - |
| | <u>(831)</u> | <u>(958)</u> |
| Income tax expense as per Statement of Comprehensive Income | <u>(831)</u> | <u>(958)</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 540 | 635 |

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable'

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of bank term deposits with maturities of up to twelve months is deemed to be equivalent to the face value plus accrued interest and have been categorised as level 2 in the hierarchy.

The fair value of fixed interest securities at the reporting date are based on binding dealer price quotations and are categorised within level 2.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

NZ CASH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|-------------------------------------------------------------|-------------|-------------|
| | 2019 | 2018 |
| Profit after tax | 2,136 | 2,465 |
| Weighted average number of units ('000) | 37,457 | 41,263 |
| Basic and diluted earnings per unit (cents per unit) | 5.70 | 5.97 |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 1.62 | - | 679 |
| August 2017 (paid September 2017) | 31/03/2018 | 1.60 | - | 672 |
| November 2017 (paid December 2017) | 31/03/2018 | 1.56 | - | 658 |
| February 2018 (paid March 2018) | 31/03/2018 | 1.62 | - | 628 |
| May 2018 (paid June 2018) | 31/03/2019 | 1.56 | 607 | - |
| August 2018 (paid September 2018) | 31/03/2019 | 1.55 | 591 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 1.57 | 599 | - |
| February 2019 (paid March 2019) | 31/03/2019 | 1.53 | 583 | - |
| | | | 2,380 | 2,637 |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 28,084,000 units on issue (2018: 38,924,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was nil (2018: 245,000) for total value of \$nil (2018: \$730,000).

The number of units redeemed during the year ended 31 March 2019 was 10,840,000 (2018: 3,295,000) for total value of \$32,293,000 (2018: \$9,850,000).

| | | |
|----------------------------------------------|----------------------|----------------------|
| | 2019 '000 | 2018 '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 38,924 | 41,974 |
| Subscriptions received during the year | - | 245 |
| Redemptions made during the year | (10,840) | (3,295) |
| Units on issue at the end of the year | 28,084 | 38,924 |

The net asset value of each unit per the financial statements is \$2.98067 (2018: \$2.98649). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

NZ CASH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. MATURITY ANALYSIS

The Fund invests in short-term interest-bearing assets and other cash and cash equivalent investments.

The tables below show an analysis of financial assets and financial liabilities analysed according to when they are expected to be recovered or settled.

| | 2019 | | | 2018 | | |
|---------------------------------------------------------------------------------|------------------|----------------|---------------|------------------|----------------|----------------|
| | Within 12 months | Over 12 months | Total | Within 12 months | Over 12 months | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| ASSETS | | | | | | |
| Cash and cash equivalents | 30 | - | 30 | 1,028 | - | 1,028 |
| Bank term deposits | 44,862 | - | 44,862 | 58,737 | - | 58,737 |
| Receivables | 310 | - | 310 | 283 | - | 283 |
| Investments in interest-bearing securities at fair value through profit or loss | 22,859 | 15,806 | 38,665 | 28,485 | 28,360 | 56,845 |
| Total assets | 68,061 | 15,806 | 83,867 | 88,533 | 28,360 | 116,893 |
| LIABILITIES | | | | | | |
| Fund expenses payable | (67) | - | (67) | (3) | - | (3) |
| Taxation payable | (83) | - | (83) | (635) | - | (635) |
| Funds held for unit purchases | (7) | - | (7) | (8) | - | (8) |
| Other current liabilities | (1) | - | (1) | (1) | - | (1) |
| Total liabilities | (158) | - | (158) | (647) | - | (647) |

7. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 27,898,483 units (2018: 38,542,636) valued at \$83,147,000 (2018: \$115,093,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$2,365,000 to SLI for the year ended 31 March 2019 (2018: \$2,618,000).

NZ CASH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. RELATED PARTY TRANSACTIONS (Continued)

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$190,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$79,000, with \$12,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$406,000 with outstanding management fees due to the Manager of \$3,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash retained for the purpose of distribution prior to the distribution being made. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$nil (2018: \$nil). The total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$2,000 (2018: \$3,000).

Other related party transactions

As at 31 March 2019 the Fund had a payable to the Manager of \$1,000 (2018: payable to the Manager of \$1,000).

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

8. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: interest rate risk, credit risk, liquidity risk. The risk management policies used by the Fund are detailed below:

8a. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is a direct consequence of investing in fixed income securities (mainly debt securities).

The Fund holds interest-bearing financial assets and liabilities - the values of which move up and down inversely to movements in market interest rates and is therefore exposed to interest rate risk.

The exposure of the Fund to interest rate risk is an investment decision taken by the Investment Manager and the size of that risk is limited in the mandate of the Investment Manager.

The following table analyses the Fund's interest rate risk exposure. The analysis has been prepared on the basis of the remaining period to contractual repricing or maturity dates.

| | 2019 | | | | | Total \$'000 |
|-------------------------------------------------------------|------------------------------|-------------------------------------|--------------------------------|--------------------------------|---------------------------|----------------------|
| | Within 6 months \$'000 | Between 6-12 months \$'000 | Between 1-2 years \$'000 | Between 2-5 years \$'000 | Over 5 years \$'000 | |
| ASSETS | | | | | | |
| Cash at banks | 30 | - | - | - | - | 30 |
| Interest-bearing securities | 8,037 | 14,822 | 3,288 | 12,518 | - | 38,665 |
| Bank term deposits | <u>21,862</u> | <u>23,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>44,862</u> |
| Total financial assets subject to interest rate risk | <u>29,929</u> | <u>37,822</u> | <u>3,288</u> | <u>12,518</u> | <u>-</u> | <u>83,557</u> |

NZ CASH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

8. FINANCIAL RISK MANAGEMENT (Continued)

| | 2018 | | | | | |
|-------------------------------------------------------------|--------------------|---------------------------|----------------------|----------------------|-----------------|----------------|
| | Within 6 months | Between 6-12 months | Between 1-2 years | Between 2-5 years | Over 5 years | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| ASSETS | | | | | | |
| Cash and cash equivalents | 1,028 | - | - | - | - | 1,028 |
| Interest-bearing securities | 18,502 | 9,984 | 20,951 | 7,408 | - | 56,845 |
| Bank term deposits | 40,712 | 18,025 | - | - | - | 58,737 |
| Total financial assets subject to interest rate risk | <u>60,242</u> | <u>28,009</u> | <u>20,951</u> | <u>7,408</u> | <u>-</u> | <u>116,610</u> |

The tables below show the sensitivity of the Fund's Statement of Comprehensive Income to a reasonably possible change in interest rates with all other variables remaining constant. The analysis is performed on the same basis for 31 March 2018. The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rates on:

- 1) The interest income for the year based on floating rate financial assets held at 31 March 2019.
- 2) Changes in fair value of investments for the year based on revaluing fixed rate financial assets at 31 March 2019.

| | 2019 | | | |
|-----------------------------|-----------------------------------|---------------------------------|--------------------------------------------------------|---------------------------------|
| | Sensitivity of interest income | | Sensitivity of changes in fair value of investments | |
| | 100 basis points increase | 100 basis points decrease | 100 basis points increase | 100 basis points decrease |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash and cash equivalents | - | - | - | - |
| Interest-bearing securities | 467 | (467) | (23) | 23 |

| | 2018 | | | |
|-----------------------------|-----------------------------------|---------------------------------|--------------------------------------------------------|---------------------------------|
| | Sensitivity of interest income | | Sensitivity of changes in fair value of investments | |
| | 100 basis points increase | 100 basis points decrease | 100 basis points increase | 100 basis points decrease |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash and cash equivalents | 10 | (10) | - | - |
| Interest-bearing securities | 753 | (753) | (23) | 23 |

8b. Credit risk

Credit risk represents the risk that a counterparty to the financial instrument will fail to perform contractual obligations under a contract and cause the Fund to incur a loss.

With respect to credit risk arising from the financial assets of the Fund, the Fund's exposure to credit risk arises from the default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The Fund holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

The analysis below summarises the credit quality of the Fund's exposure rated externally by Standard & Poor's, Moody's or Fitch. There are no D rated securities held by the Fund (2018: none).

NZ CASH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

8. FINANCIAL RISK MANAGEMENT (Continued)

| | 2019 | | | |
|-----------------------|----------------------|----------------------|----------------------|-----------------------|
| | AAA to AA- \$'000 | A+ to A- \$'000 | BBB+ to B- \$'000 | Total \$'000 |
| NZ bank bills | 9,113 | - | - | 9,113 |
| NZ corporate bonds | 6,332 | 15,966 | 7,254 | 29,552 |
| NZ bank term deposits | <u>12,581</u> | <u>21,527</u> | <u>10,754</u> | <u>44,862</u> |
| | <u>28,026</u> | <u>37,493</u> | <u>18,008</u> | <u>83,527</u> |
| | 2018 | | | |
| | AAA to AA- \$'000 | A+ to A- \$'000 | BBB+ to B- \$'000 | Total \$'000 |
| NZ bank bills | 16,629 | - | - | 16,629 |
| NZ corporate bonds | 15,117 | 14,210 | 10,889 | 40,216 |
| NZ bank term deposits | <u>22,682</u> | <u>25,913</u> | <u>10,142</u> | <u>58,737</u> |
| | <u>54,428</u> | <u>40,123</u> | <u>21,031</u> | <u>115,582</u> |

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of AA- (2018: AA-) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance with each bank above at the reporting date.

| | 2019 | | 2018 | |
|---------|-------------------|------------------|---------------------|------------------|
| | Balance \$'000 | Credit rating | Balance \$'000 | Credit rating |
| ANZ | 7 | AA- | 9 | AA- |
| Westpac | <u>23</u> | AA- | <u>1,019</u> | AA- |
| | <u>30</u> | | <u>1,028</u> | |

8c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund is able to generate sufficient cash on a timely manner to meet its financial commitments and normal level of redemptions. The Investment Manager ensures that the Fund has appropriate liquidity levels within allowable benchmark ranges. In the event of abnormal levels of redemptions, timing of payments may depend on the ability of the Fund to realise its underlying investments on a timely basis, subject to provisions in the Trust Deed.

9. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

NZ CASH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

10. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of NZ Cash Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of NZ Cash Fund (the 'fund') on pages 3 to 17:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$839,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

NZ CASH FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 99.6% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

NZ CASH FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



NZ DIVIDEND FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the NZ Dividend Fund

NZ DIVIDEND FUND

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NZ DIVIDEND FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants Customhouse
Level 5, 50 -64 Customhouse Quay
Wellington 6011
New Zealand

INVESTMENT ADMINISTRATOR

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

INVESTMENT CUSTODIAN

JBWere (NZ) Nominees Limited

REGISTRAR

Link Market Services Limited

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

NZ DIVIDEND FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The NZ Dividend Fund (the 'Fund') was created by an establishment deed dated 19 March 2015 as amended on 5 June 2015 and amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

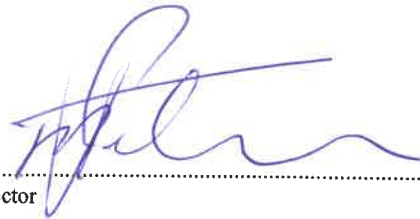
It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

NZ DIVIDEND FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|---------------------|---------------------|
| INCOME | | | |
| Dividend income | | 1,498 | 1,753 |
| Securities lending income | | 7 | 8 |
| Net changes in fair value of financial assets at fair value through profit or loss | | <u>4,161</u> | <u>(846)</u> |
| Total income | | <u>5,666</u> | <u>915</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (151) | (192) |
| Miscellaneous expenses | | <u>(2)</u> | <u>(2)</u> |
| Total expenses | | <u>(153)</u> | <u>(194)</u> |
| Profit before tax | | 5,513 | 721 |
| Income tax expense | 1 | <u>(12)</u> | <u>(1)</u> |
| Profit after tax | | 5,501 | 720 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>5,501</u> | <u>720</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>22.34</u> | <u>2.29</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ DIVIDEND FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|----------------------|----------------------|
| Unitholders' funds at the beginning of the year | | 22,790 | 34,029 |
| Total comprehensive income for the year | | <u>5,501</u> | <u>720</u> |
| Subscriptions from unitholders | 5 | 8,506 | 8,234 |
| Redemptions by unitholders | 5 | - | (18,451) |
| Distributions to unitholders | 4 | <u>(1,139)</u> | <u>(1,742)</u> |
| | | <u>7,367</u> | <u>(11,959)</u> |
| Unitholders' funds at the end of the year | | <u><u>35,658</u></u> | <u><u>22,790</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ DIVIDEND FUND

**STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019**

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 444 | 389 |
| Receivables | | 380 | 263 |
| Investments in equity securities at fair value through profit or loss | | 35,285 | 22,312 |
| Taxation receivable | | 20 | 3 |
| Deferred tax asset | | 19 | 2 |
| Unsettled sales of investments | | <u>-</u> | <u>1,760</u> |
| TOTAL ASSETS | | <u>36,148</u> | <u>24,729</u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (32) | (1) |
| Funds held for unit purchases | | (153) | (178) |
| Unsettled purchases of investments | | <u>(305)</u> | <u>(1,760)</u> |
| TOTAL LIABILITIES | | <u>(490)</u> | <u>(1,939)</u> |
| UNITHOLDERS' FUNDS | | <u>35,658</u> | <u>22,790</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>36,148</u> | <u>24,729</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.

Director

Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ DIVIDEND FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 1,381 | 1,904 |
| Securities lending income received | | 7 | 8 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (120) | (193) |
| Taxation paid | | (46) | - |
| Miscellaneous expenses paid | | (2) | (2) |
| Net cash flows from operating activities | | <u>1,220</u> | <u>1,717</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 9,587 | 9,129 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | (13,415) | (12,311) |
| Net cash flows from investing activities | | <u>(3,828)</u> | <u>(3,182)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 3,802 | 2,733 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | - | (59) |
| Distributions paid to unitholders | | (1,139) | (1,742) |
| Net cash flows from financing activities | | <u>2,663</u> | <u>932</u> |
| Net increase/(decrease) in cash and cash equivalents | | 55 | (533) |
| Cash and cash equivalents at the beginning of the year | | <u>389</u> | <u>922</u> |
| Cash and cash equivalents at the end of the year | | <u>444</u> | <u>389</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 5,501 | 720 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (4,161) | 846 |
| (Increase)/decrease in taxation receivable | | (17) | 17 |
| Increase in deferred tax asset | | (17) | (2) |
| Decrease in deferred tax liability | | - | (14) |
| Increase/(decrease) in fund expenses payable | | 31 | (1) |
| (Increase)/decrease in receivables | | (117) | 151 |
| Net cash flows from operating activities | | <u>1,220</u> | <u>1,717</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The NZ Dividend Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 19 March 2015 and commenced operations on 7 April 2015.

The Fund's units are quoted on the NZX Main Board. The fund is a passive investment fund that tracks the S&P/NZX 50 High Dividend Index ('the Index'). As prescribed by the Trust Deed, the Fund invests in the securities included in the Index broadly in proportion to the weightings of the Index. Investments are valued at fair value according to last traded market prices on the NZX Main Board on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments and security lending income less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends from its investments in securities and securities lending income after the deduction of management fees. The Fund is able to utilise imputation credits when they are available. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date. The temporary differences relate to accrued dividends and tax losses to be carried forward.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Securities lending

The Fund enters into securities lending transactions whereby it gives loans of securities recognised on the Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the lent securities or a portion of them. As all or substantially all risks and rewards are retained, the lent securities are not derecognised.

Segment information

The Fund invests solely in New Zealand equities. The Fund receives all of its income from its New Zealand equity investments.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

There are a number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, as they were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|--------------------|-------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (29) | (17) |
| Deferred tax movement | <u>17</u> | <u>16</u> |
| Total tax expense | <u>(12)</u> | <u>(1)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|--------------------|-------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | <u>5,513</u> | <u>721</u> |
| Income tax using the statutory income tax rate of 28% | (1,544) | (202) |
| Net changes in fair value of financial assets and financial liabilities | 1,165 | (237) |
| Non-taxable income | 39 | (16) |
| Gross up of imputation credits | <u>(127)</u> | <u>(177)</u> |
| | (467) | (632) |
| Less imputation credits and other tax credits | <u>455</u> | <u>631</u> |
| Income tax expense as per Statement of Comprehensive Income | <u>(12)</u> | <u>(1)</u> |

Deferred tax

| | 2019 | 2018 |
|-------------------------|------------------|-----------------|
| | \$'000 | \$'000 |
| Opening balance | 2 | (14) |
| Current period movement | <u>17</u> | <u>16</u> |
| Closing balance | <u>19</u> | <u>2</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 338 | 250 |

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|-------------------------------------------------------------|--------------|-------------|
| | 2019 | 2018 |
| Profit after tax | 5,501 | 720 |
| Weighted average number of units ('000) | 24,626 | 31,432 |
| Basic and diluted earnings per unit (cents per unit) | 22.34 | 2.29 |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 2.37 | - | 750 |
| November 2017 (paid December 2017) | 31/03/2018 | 2.90 | - | 992 |
| May 2018 (paid June 2018) | 31/03/2019 | 2.40 | 522 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 2.49 | 617 | - |
| | | | 1,139 | 1,742 |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 28,782,000 units on issue (2018: 21,282,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 7,500,000 (2018: 7,375,000) for total value of \$8,506,000 (2018: \$8,234,000).

The number of units redeemed during the year ended 31 March 2019 was nil (2018: 16,805,000) for total value of \$nil (2018: \$18,451,000).

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

5. UNITHOLDERS' FUNDS (Continued)

| | 2019 | 2018 |
|----------------------------------------------|----------------------|----------------------|
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 21,282 | 30,712 |
| Subscriptions received during the year | 7,500 | 7,375 |
| Redemptions made during the year | - | (16,805) |
| Units on issue at the end of the year | <u>28,782</u> | <u>21,282</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$1.23890 (2018: \$1.07086). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 4,601,723 units (2018: 2,834,876) valued at \$5,701,000 (2018: \$3,036,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$146,000 to SLI for the year ended 31 March 2019 (2018: \$1,033,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$68,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$19,000, with \$3,000 of outstanding accrued management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$192,000 with outstanding management fees due to the Manager of \$1,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$2,000 (2018: \$6,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$9,000 (2018: \$13,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

The Fund has a securities lending agreement with New Zealand Clearing Limited ("NZCL"), a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. As at 31 March 2019 the value of securities the Fund had on loan to NZCL was \$985,000 (2018: \$724,000).

Total security lending fees for the year ended 31 March 2019 amounted to \$7,000 (2018: \$8,000), with the accrued fees due to the Fund of \$1,000 (2018: \$1,000). The fees earned by the Fund above represent fifty percent of the total fee earned from the securities lending agreement the Fund has with NZCL. The other fifty percent is income by the Manager for administering the securities lending agreement.

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and securities lending risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

Because the Fund tracks an New Zealand equity index and is fully invested in the index's underlying New Zealand equity securities, the value of the Fund will move up and down with the New Zealand market.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$3,529,000 (2018: \$2,231,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all amounts due from brokers, cash and cash equivalents are held with counterparties with a credit rating of AA- (2018: A-) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ') and Bank of New Zealand Limited ('BNZ').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-----|----------------|---------------|----------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 153 | AA- | 178 | AA- |
| BNZ | 291 | AA- | 211 | AA- |
| | <u>444</u> | | <u>389</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investments in listed securities are considered readily realisable, as they are quoted on the NZX Main Board. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning the proportionate number of underlying securities in return for the units. Liquidity risk for the Fund is therefore low.

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7d. Securities lending risk

A number of possible risks arise from the Fund's securities lending program. These include, but are not limited to, the risk that a borrower of securities fails to deliver equivalent securities on termination of a loan, the risk of failure of the central counterparty settlement system, the risk that the lending contract will for whatever reason not be legally enforceable.

In order to limit the Fund's exposure to risk that may arise from securities lending, the Fund has a limitation of 50% of the value of its securities it may lend at any point in time.

At 31 March 2019, the single borrower of the Fund's securities is New Zealand Clearing Limited ('NZCL'), a wholly owned subsidiary of NZX Limited.

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of NZ Dividend Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of NZ Dividend Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$361,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

NZ DIVIDEND FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 97.6% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

NZ DIVIDEND FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington
26 June 2019



NZ MID CAP FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the NZ Mid Cap Fund

NZ MID CAP FUND

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NZ MID CAP FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

INVESTMENT ADMINISTRATOR

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

INVESTMENT CUSTODIAN

JBWere (NZ) Nominees Limited

REGISTRAR

Link Market Services Limited

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

NZ MID CAP FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The NZ Mid Cap Fund (the 'Fund') was created by an establishment deed dated 9 September 2016 between the Manager and Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

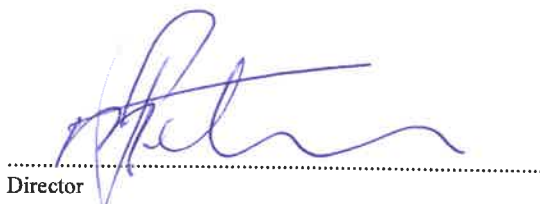
It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

NZ MID CAP FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|----------------------|----------------------|
| INCOME | | | |
| Dividend income | | 4,809 | 3,620 |
| Securities lending income | | 12 | 19 |
| Net changes in fair value of financial assets at fair value through profit or loss | | <u>14,142</u> | <u>11,305</u> |
| Total income | | <u>18,963</u> | <u>14,944</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (684) | (610) |
| Miscellaneous expenses | | <u>(3)</u> | <u>(5)</u> |
| Total expenses | | <u>(687)</u> | <u>(615)</u> |
| Profit before tax | | 18,276 | 14,329 |
| Income tax credit/(expense) | 1 | <u>3</u> | <u>(50)</u> |
| Profit after tax | | 18,279 | 14,279 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>18,279</u> | <u>14,279</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>80.11</u> | <u>70.96</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ MID CAP FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|------------------------------|-----------------------------|
| Unitholders' funds at the beginning of the year | | 97,518 | 77,377 |
| Total comprehensive income for the year | | <u>18,279</u> | <u>14,279</u> |
| Subscriptions from unitholders | 5 | 20,905 | 14,761 |
| Redemptions by unitholders | 5 | (519) | (6,243) |
| Distributions to unitholders | 4 | <u>(3,739)</u> | <u>(2,656)</u> |
| | | <u>16,647</u> | <u>5,862</u> |
| Unitholders' funds at the end of the year | | <u><u>132,444</u></u> | <u><u>97,518</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ MID CAP FUND

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|-----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 1,926 | 1,450 |
| Receivables | | 474 | 435 |
| Investments in equity securities at fair value through profit or loss | | 133,856 | 95,900 |
| Unsettled sales of investments | | <u>-</u> | <u>182</u> |
| TOTAL ASSETS | | <u>136,256</u> | <u>97,967</u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (112) | (5) |
| Deferred tax payable | | - | (15) |
| Distribution payable to unitholders | | (4) | (3) |
| Funds held for unit purchases | | (417) | (244) |
| Unsettled purchases of investments | | (3,278) | (182) |
| Other current liabilities | | <u>(1)</u> | <u>-</u> |
| TOTAL LIABILITIES | | <u>(3,812)</u> | <u>(449)</u> |
| UNITHOLDERS' FUNDS | | <u>132,444</u> | <u>97,518</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>136,256</u> | <u>97,967</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.

Director

Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ MID CAP FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 4,769 | 3,621 |
| Securities lending income received | | 13 | 18 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (577) | (610) |
| Taxation paid | | (12) | (5) |
| Miscellaneous expenses paid | | (3) | (5) |
| Net cash flows from operating activities | | <u>4,190</u> | <u>3,019</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 5,326 | 28,769 |
| Net repayments from the Manager | | 1 | - |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | (10,490) | (36,098) |
| Net cash flows from investing activities | | <u>(5,163)</u> | <u>(7,329)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 5,194 | 6,215 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (7) | (27) |
| Distributions paid to unitholders | | (3,738) | (2,653) |
| Net cash flows from financing activities | | <u>1,449</u> | <u>3,535</u> |
| Net increase/(decrease) in cash and cash equivalents | | 476 | (775) |
| Cash and cash equivalents at the beginning of the year | | <u>1,450</u> | <u>2,225</u> |
| Cash and cash equivalents at the end of the year | | <u>1,926</u> | <u>1,450</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 18,279 | 14,279 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (14,142) | (11,305) |
| Decrease in deferred tax asset | | - | 30 |
| (Decrease)/increase in deferred tax liability | | (15) | 15 |
| Increase in fund expenses payable | | 107 | - |
| Increase in receivables | | (39) | - |
| Net cash flows from operating activities | | <u>4,190</u> | <u>3,019</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The NZ Mid Cap Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 9 September 2016 and commenced operations on 7 November 2016.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that tracks the S&P/NZX Mid Cap Index (the 'Index'). As prescribed by the Trust Deed, the Fund invests in the securities included in the Index broadly in proportion to the weightings of the Index. Investments are valued at fair value according to last traded market prices on the NZX Main Board on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

NZ MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments and security lending income less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

NZ MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends from its investments in securities and securities lending income after the deduction of management fees. The Fund is able to utilise imputation credits when they are available. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date. The temporary differences relate to accrued dividends. Tax losses that have arisen in prior years and the current reporting period have not been recognised as an asset in the Statement of Financial Position as it is unlikely that the tax losses will be able to be utilised in future reporting periods.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Securities lending

The Fund enters into securities lending transactions whereby it gives loans of securities recognised on the Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the lent securities or a portion of them. As all or substantially all risks and rewards are retained, the lent securities are not derecognised.

Segment information

The Fund invests solely in New Zealand equities. The Fund receives all of its income from its New Zealand equity investments.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

NZ MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|----------------------------------------|-----------------|--------------------|
| | \$'000 | \$'000 |
| Tax credit/(expense) comprises: | | |
| Current tax expense | (12) | (5) |
| Prior period adjustment | 15 | (49) |
| Deferred tax movement | - | 4 |
| Total tax credit/(expense) | <u><u>3</u></u> | <u><u>(50)</u></u> |

The prima facie income tax expense on profit before tax reconciles to the income tax credit/(expense) in the financial statements as follows:

| | 2019 | 2018 |
|-----------------------------------------------------------------------------|-----------------|--------------------|
| | \$'000 | \$'000 |
| Income tax credit/(expense) | | |
| Profit before tax | <u>18,276</u> | <u>14,329</u> |
| Income tax using the statutory income tax rate of 28% | <u>(5,117)</u> | <u>(4,012)</u> |
| Net changes in fair value of financial assets and financial liabilities | 3,959 | 3,164 |
| Non-taxable income | 155 | 140 |
| Gross up of imputation credits | <u>(403)</u> | <u>(303)</u> |
| | (1,406) | (1,011) |
| Less imputation credits and other tax credits | 1,439 | 1,082 |
| Tax losses written off | (45) | (72) |
| Prior period adjustment | <u>15</u> | <u>(49)</u> |
| Income tax credit/(expense) as per Statement of Comprehensive Income | <u><u>3</u></u> | <u><u>(50)</u></u> |

Deferred tax

| | 2019 | 2018 |
|-------------------------|-----------------|--------------------|
| | \$'000 | \$'000 |
| Opening balance | (15) | 30 |
| Current period movement | - | 4 |
| Prior period adjustment | <u>15</u> | <u>(49)</u> |
| Closing balance | <u><u>-</u></u> | <u><u>(15)</u></u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 600 | 519 |

NZ MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The following table presents the fund's assets and liabilities measured and recognised at fair value as at 31 March 2019 and 31 March 2018.

| | 2019 | | | 2018 | | |
|--------------------------------------------------------------|----------------|----------|----------------|---------------|-----------|---------------|
| | Level 1 | Level 3 | Total | Level 1 | Level 3 | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| <i>Financial assets at fair value through profit or loss</i> | | | | | | |
| Equity securities | 133,856 | - | 133,856 | 95,808 | 92* | 95,900 |
| | <u>133,856</u> | <u>-</u> | <u>133,856</u> | <u>95,808</u> | <u>92</u> | <u>95,900</u> |

* CBL Limited

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

As at 31 March 2019 there was no transfer (2018: one) from level 1 to level 3 totalling \$nil (2018: \$92,000).

The Fund's level 3 investment was an unquoted investment held by the Fund which was reviewed on a monthly basis by the Fund's oversight committee. The Fund initially valued the investment using the entry price and subsequently revalued the investment per the Fund's 'Measurement' policy in the Statement of Accounting Policies.

The following table shows a reconciliation from the opening balances to the closing balances for the fair value measurements in level 3 of the fair value hierarchy.

| | 2019 | 2018 |
|-------------------------------------------|----------|-----------|
| | \$'000 | \$'000 |
| Opening balance | 92 | - |
| Total losses recognised in profit or loss | (92) | - |
| Transfer into Level 3 | - | 92 |
| Closing balance | <u>-</u> | <u>92</u> |

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | 2019 | 2018 |
|-------------------------------------------------------------|---------------|---------------|
| Profit after tax | 18,279 | 14,279 |
| Weighted average number of units ('000) | <u>22,816</u> | <u>20,124</u> |
| Basic and diluted earnings per unit (cents per unit) | <u>80.11</u> | <u>70.96</u> |

NZ MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|------------|----------------------------------------------|----------------|----------------|
| May 2017 (paid June 2017) | 31/03/2018 | 6.08 | - | 1,151 |
| November 2017 (paid December 2017) | 31/03/2018 | 7.22 | - | 1,505 |
| May 2018 (paid June 2018) | 31/03/2019 | 7.80 | 1,633 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 9.10 | 2,106 | - |
| | | | <u>3,739</u> | <u>2,656</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 24,641,000 units on issue (2018: 20,541,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 4,200,000 (2018: 3,200,000) for total value of \$20,905,000 (2018: \$14,761,000).

The number of units redeemed during the year ended 31 March 2019 was 100,000 (2018: 1,309,000) for total value of \$519,000 (2018: \$6,243,000).

| | 2019 '000 | 2018 '000 |
|----------------------------------------------|---------------|----------------|
| Movement in the number of units | | |
| Balance at the beginning of the year | 20,541 | 18,650 |
| Subscriptions received during the year | 4,200 | 3,200 |
| Redemptions made during the year | <u>(100)</u> | <u>(1,309)</u> |
| Units on issue at the end of the year | <u>24,641</u> | <u>20,541</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$5.37494 (2018: \$4.74748). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

NZ MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board. The Fund holds shares in NZX Limited as NZX Limited shares constitute part of the Index that the Fund tracks.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 1,515,420 units (2018: 879,138) valued at \$8,140,000 (2018: \$4,168,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$199,000 to SLI for the year ended 31 March 2019 (2018: \$277,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$322,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$205,000, with \$35,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$610,000 with outstanding management fees due to the Manager of \$5,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$4,000 (2018: \$10,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$33,000 (2018: \$29,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

The Fund has a securities lending agreement with New Zealand Clearing Limited ("NZCL"), a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. As at 31 March 2019 the value of securities the Fund had on loan to NZCL was \$2,365,000 (2018: \$2,676,000).

Total security lending fees for the year ended 31 March 2019 amounted to \$12,000 (2018: \$19,000), with the accrued fees due to the Fund of \$1,000 (2018: \$2,000). The fees earned by the Fund above represent fifty percent of the total fee earned from the securities lending agreement the Fund has with NZCL. The other fifty percent is income by the Manager for administering the securities lending agreement.

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and securities lending risk. The risk management policies used by the Fund are detailed below:

NZ MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

Because the Fund tracks an New Zealand equity index and is fully invested in the index's underlying New Zealand equity securities, the value of the Fund will move up and down with the New Zealand market.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$13,386,000 (2018: \$9,590,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all amounts due from brokers, cash and cash equivalents are held with counterparties with a credit rating of AA- (2018: A-) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ') and Bank of New Zealand Limited ('BNZ').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-----|---------------------|---------------|---------------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 562 | AA- | 388 | AA- |
| BNZ | <u>1,364</u> | AA- | <u>1,062</u> | AA- |
| | <u>1,926</u> | | <u>1,450</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investments in listed securities are considered readily realisable, as they are quoted on the NZX Main Board. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning the proportionate number of underlying securities in return for the units. Liquidity risk for the Fund is therefore low.

7d. Securities lending risk

A number of possible risks arise from the Fund's securities lending program. These include, but are not limited to, the risk that a borrower of securities fails to deliver equivalent securities on termination of a loan, the risk of failure of the central counterparty settlement system, the risk that the lending contract will for whatever reason not be legally enforceable.

In order to limit the Fund's exposure to risk that may arise as a result of securities lending, the Fund has a limitation of 50% of the value of its securities it may lend at any point in time

At 31 March 2019, the single borrower of the Fund's securities is New Zealand Clearing Limited ('NZCL'), a wholly owned subsidiary of NZX Limited.

NZ MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of NZ Mid Cap Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of NZ Mid Cap Fund (the 'fund') on pages 3 to 15:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$1,363,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

NZ MID CAP FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 98.2% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

NZ MID CAP FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



NZ PROPERTY FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the NZ Property Fund

NZ PROPERTY FUND

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NZ PROPERTY FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

NZ PROPERTY FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The NZ Property Fund (the 'Fund') was created by an establishment deed dated 15 October 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited

.....
Director

.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

NZ PROPERTY FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|----------------------|---------------------|
| INCOME | | | |
| Dividend income | | 2,249 | 2,490 |
| Net changes in fair value of financial assets at fair value through profit or loss | | <u>8,701</u> | <u>1,281</u> |
| Total income | | <u>10,950</u> | <u>3,771</u> |
| EXPENSES | | | |
| Fund expenses | 6 | <u>(260)</u> | <u>(280)</u> |
| Total expenses | | <u>(260)</u> | <u>(280)</u> |
| Profit before tax | | 10,690 | 3,491 |
| Income tax expense | 1 | <u>(2)</u> | <u>(98)</u> |
| Profit after tax | | 10,688 | 3,393 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>10,688</u> | <u>3,393</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>25.54</u> | <u>7.04</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ PROPERTY FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|----------------------|----------------------|
| Unitholders' funds at the beginning of the year | | 41,766 | 49,025 |
| Total comprehensive income for the year | | <u>10,688</u> | <u>3,393</u> |
| Subscriptions from unitholders | 5 | 18,256 | 9,607 |
| Redemptions by unitholders | 5 | (2,832) | (17,949) |
| Distributions to unitholders | 4 | <u>(1,893)</u> | <u>(2,310)</u> |
| | | <u>13,531</u> | <u>(10,652)</u> |
| Unitholders' funds at the end of the year | | <u><u>65,985</u></u> | <u><u>41,766</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ PROPERTY FUND

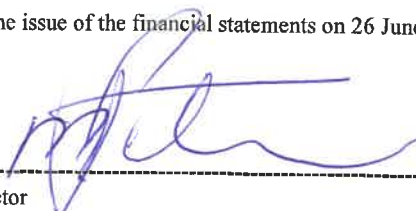
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 1,417 | 1,068 |
| Investments in equity securities at fair value through profit or loss | | <u>65,031</u> | <u>40,821</u> |
| TOTAL ASSETS | | <u>66,448</u> | <u>41,889</u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (44) | (2) |
| Funds held for unit purchases | | (106) | (121) |
| Unsettled purchases of investments | | <u>(313)</u> | <u>-</u> |
| TOTAL LIABILITIES | | <u>(463)</u> | <u>(123)</u> |
| UNITHOLDERS' FUNDS | | <u>65,985</u> | <u>41,766</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>66,448</u> | <u>41,889</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ PROPERTY FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 2,249 | 2,490 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (218) | (280) |
| Taxation paid | | <u>(2)</u> | <u>(1)</u> |
| Net cash flows from operating activities | | <u>2,029</u> | <u>2,209</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 2,273 | 2,024 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | <u>(3,645)</u> | <u>(3,201)</u> |
| Net cash flows from investing activities | | <u>(1,372)</u> | <u>(1,177)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 1,621 | 1,306 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (36) | (235) |
| Distributions paid to unitholders | | <u>(1,893)</u> | <u>(2,310)</u> |
| Net cash flows from financing activities | | <u>(308)</u> | <u>(1,239)</u> |
| Net increase/(decrease) in cash and cash equivalents | | 349 | (207) |
| Cash and cash equivalents at the beginning of the year | | <u>1,068</u> | <u>1,275</u> |
| Cash and cash equivalents at the end of the year | | <u>1,417</u> | <u>1,068</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 10,688 | 3,393 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (8,701) | (1,281) |
| Decrease in deferred tax asset | | - | 97 |
| Increase in fund expenses payable | | <u>42</u> | <u>-</u> |
| Net cash flows from operating activities | | <u>2,029</u> | <u>2,209</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The NZ Property Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 15 October 2015 and commenced operations on 12 November 2015.

The Fund's units are quoted on the NZX Main Board. The fund is a passive investment fund that tracks the S&P/NZX Real Estate Select Index ('the Index'). As prescribed by the Trust Deed, the Fund invests in the securities included in the Index broadly in proportion to the weightings of the Index. Investments are valued at fair value according to last traded market prices on the NZX Main Board on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

NZ PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

NZ PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends from its investments in securities after the deduction of management fees. The Fund is able to utilise imputation credits when they are available. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date. Tax losses that have arisen in prior years and the current reporting period have not been recognised as an asset in the Statement of Financial Position as it is unlikely that the tax losses will be able to be utilised in future reporting periods.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in New Zealand equities. The Fund receives all of its income from its New Zealand equity investments.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

NZ PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|-------------------|--------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (2) | (1) |
| Prior period adjustment | <u>-</u> | <u>(97)</u> |
| Total tax expense | <u><u>(2)</u></u> | <u><u>(98)</u></u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|-------------------|--------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | <u>10,690</u> | <u>3,491</u> |
| Income tax using the statutory income tax rate of 28% | <u>(2,993)</u> | <u>(977)</u> |
| Net changes in fair value of financial assets and financial liabilities | 2,436 | 359 |
| Non-taxable income | 305 | 394 |
| Gross up of imputation credits | <u>(126)</u> | <u>(117)</u> |
| | (378) | (341) |
| Less imputation credits and other tax credits | 451 | 417 |
| Current period/year losses not recognised | (75) | (77) |
| Prior period adjustment | <u>-</u> | <u>(97)</u> |
| Income tax expense as per Statement of Comprehensive Income | <u><u>(2)</u></u> | <u><u>(98)</u></u> |

Deferred tax

| | 2019 | 2018 |
|-------------------------|-----------------|-----------------|
| | \$'000 | \$'000 |
| Opening balance | - | 97 |
| Current period movement | - | - |
| Prior period adjustment | <u>-</u> | <u>(97)</u> |
| Closing balance | <u><u>-</u></u> | <u><u>-</u></u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 261 | 197 |

NZ PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|-------------------------------------------------------------|---------------------|--------------------|
| | 2019 | 2018 |
| Profit after tax | 10,688 | 3,393 |
| Weighted average number of units ('000) | <u>41,845</u> | <u>48,226</u> |
| Basic and diluted earnings per unit (cents per unit) | <u>25.54</u> | <u>7.04</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 2.36 | - | 1,105 |
| November 2017 (paid December 2017) | 31/03/2018 | 2.31 | - | 1,205 |
| May 2018 (paid June 2018) | 31/03/2019 | 2.37 | 941 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 2.33 | <u>952</u> | <u>-</u> |
| | | | <u>1,893</u> | <u>2,310</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 51,512,000 units on issue (2018: 38,762,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 15,250,000 (2018: 8,875,000) for total value of \$18,256,000 (2018: \$9,607,000).

The number of units redeemed during the year ended 31 March 2019 was 2,500,000 (2018: 16,594,000) for total value of \$2,832,000 (2018: \$17,949,000).

NZ PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

5. UNITHOLDERS' FUNDS (Continued)

| | 2019 | 2018 |
|----------------------------------------------|----------------------|----------------------|
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 38,762 | 46,481 |
| Subscriptions received during the year | 15,250 | 8,875 |
| Redemptions made during the year | <u>(2,500)</u> | <u>(16,594)</u> |
| Units on issue at the end of the year | <u>51,512</u> | <u>38,762</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$1.28096 (2018: \$1.07750). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 29,525,431 units (2018: 28,263,506) valued at \$37,822,000 (2018: \$30,454,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$1,293,000 to SLI for the year ended 31 March 2019 (2018: \$1,993,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$120,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$85,000, with \$16,000 of outstanding accrued management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$280,000 with outstanding management fees due to the Manager of \$2,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$1,000 (2018: \$2,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$10,000 (2018: \$13,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

NZ PROPERTY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk and liquidity risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

Because the Fund tracks an New Zealand equity index and is fully invested in the index's underlying New Zealand equity securities, the value of the Fund will move up and down with the New Zealand market.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$6,503,000 (2018: \$4,082,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of AA- (2018: AA-) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|---------|---------------------|---------------|---------------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 106 | AA- | 121 | AA- |
| Westpac | <u>1,311</u> | AA- | <u>947</u> | AA- |
| | <u>1,417</u> | | <u>1,068</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investments in listed securities are considered readily realisable, as they are quoted on the NZX Main Board. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning the proportionate number of underlying securities in return for the units. Liquidity risk for the Fund is therefore low.

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of NZ Property Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of NZ Property Fund (the 'fund') on pages 3 to 13:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$664,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

NZ PROPERTY FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 97.9% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

NZ PROPERTY FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



NZ TOP 10 FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the NZ Top 10 Fund

NZ TOP 10 FUND

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NZ TOP 10 FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

INVESTMENT ADMINISTRATOR

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

INVESTMENT CUSTODIAN

JBWere (NZ) Nominees Limited

REGISTRAR

Link Market Services Limited

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

NZ TOP 10 FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The NZ Top 10 Fund (the 'Fund') was created by an establishment deed dated 9 September 2016 between the Manager and Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.


It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

NZ TOP 10 FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|----------------------|---------------------|
| INCOME | | | |
| Dividend income | | 2,787 | 2,990 |
| Securities lending income | | 15 | 22 |
| Net changes in fair value of financial assets at fair value through profit or loss | | <u>13,350</u> | <u>6,643</u> |
| Total income | | <u>16,152</u> | <u>9,655</u> |
| EXPENSES | | | |
| Fund expenses | 6 | <u>(527)</u> | <u>(491)</u> |
| Total expenses | | <u>(527)</u> | <u>(491)</u> |
| Profit before tax | | 15,625 | 9,164 |
| Income tax (expense)/credit | 1 | <u>(42)</u> | <u>19</u> |
| Profit after tax | | 15,583 | 9,183 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>15,583</u> | <u>9,183</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>27.94</u> | <u>16.01</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ TOP 10 FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|-----------------------------|-----------------------------|
| Unitholders' funds at the beginning of the year | | 80,250 | 77,486 |
| Total comprehensive income for the year | | <u>15,583</u> | <u>9,183</u> |
| Subscriptions from unitholders | 5 | 7,782 | 3,540 |
| Redemptions by unitholders | 5 | (2,777) | (7,155) |
| Distributions to unitholders | 4 | <u>(1,986)</u> | <u>(2,804)</u> |
| | | <u>3,019</u> | <u>(6,419)</u> |
| Unitholders' funds at the end of the year | | <u><u>98,852</u></u> | <u><u>80,250</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ TOP 10 FUND

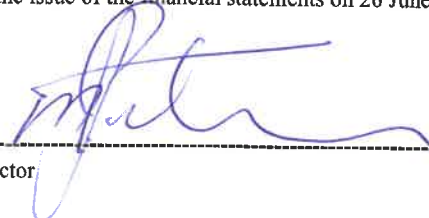
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 437 | 312 |
| Receivables | | 1,026 | 818 |
| Investments in equity securities at fair value through profit or loss | | 98,026 | 79,193 |
| Taxation receivable | | 12 | 6 |
| Deferred tax asset | | - | 10 |
| TOTAL ASSETS | | <u>99,501</u> | <u>80,339</u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (82) | (4) |
| Deferred tax payable | | (23) | - |
| Distribution payable to unitholders | | (18) | (11) |
| Funds held for unit purchases | | (101) | (74) |
| Unsettled purchases of investments | | (425) | - |
| TOTAL LIABILITIES | | <u>(649)</u> | <u>(89)</u> |
| UNITHOLDERS' FUNDS | | <u>98,852</u> | <u>80,250</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>99,501</u> | <u>80,339</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ TOP 10 FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 2,578 | 3,178 |
| Securities lending income received | | 16 | 21 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (449) | (491) |
| Taxation paid | | (15) | (33) |
| Net cash flows from operating activities | | <u>2,130</u> | <u>2,675</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 2,305 | 13,349 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | (3,655) | (14,821) |
| Net cash flows from investing activities | | <u>(1,350)</u> | <u>(1,472)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 1,343 | 1,166 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (19) | (14) |
| Distributions paid to unitholders | | (1,979) | (2,793) |
| Net cash flows from financing activities | | <u>(655)</u> | <u>(1,641)</u> |
| Net increase/(decrease) in cash and cash equivalents | | 125 | (438) |
| Cash and cash equivalents at the beginning of the year | | <u>312</u> | <u>750</u> |
| Cash and cash equivalents at the end of the year | | <u>437</u> | <u>312</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 15,583 | 9,183 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (13,350) | (6,643) |
| Increase in taxation receivable | | (6) | (6) |
| Decrease in taxation payable | | - | (14) |
| Decrease/(increase) in deferred tax asse | | 10 | (10) |
| Increase/(decrease) in deferred tax liability | | 23 | (22) |
| Increase in fund expenses payable | | 78 | - |
| (Increase)/decrease in receivables | | (208) | 187 |
| Net cash flows from operating activities | | <u>2,130</u> | <u>2,675</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ TOP 10 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The NZ Top 10 Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 9 September 2016 and commenced operations on 7 November 2016.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that tracks the S&P/NZX 10 Index (the 'Index'). As prescribed by the Trust Deed, the Fund invests in the securities included in the Index broadly in proportion to the weightings of the Index. Investments are valued at fair value according to last traded market prices on the NZX Main Board on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

NZ TOP 10 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments and security lending income less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

NZ TOP 10 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends from its investments in securities and securities lending income after the deduction of management fees. The Fund is able to utilise imputation credits when they are available. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date. The temporary differences relate to accrued dividends and tax losses to be carried forward.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Securities lending

The Fund enters into securities lending transactions whereby it gives loans of securities recognised on the Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the lent securities or a portion of them. As all or substantially all risks and rewards are retained, the lent securities are not derecognised.

Segment information

The Fund invests solely in New Zealand equities. The Fund receives all of its income from its New Zealand equity investments.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

NZ TOP 10 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|----------------------------------------|--------------------|------------------|
| | \$'000 | \$'000 |
| Tax (expense)/credit comprises: | | |
| Current tax expense | (9) | (12) |
| Prior period adjustment | - | (1) |
| Deferred tax movement | <u>(33)</u> | <u>32</u> |
| Total tax (expense)/credit | <u>(42)</u> | <u>19</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax (expense)/credit in the financial statements as follows:

| | 2019 | 2018 |
|-----------------------------------------------------------------------------|--------------------|------------------|
| | \$'000 | \$'000 |
| Income tax (expense)/credit | | |
| Profit before tax | <u>15,625</u> | <u>9,164</u> |
| Income tax using the statutory income tax rate of 28% | (4,375) | (2,566) |
| Net changes in fair value of financial assets and financial liabilities | 3,738 | 1,860 |
| Non-taxable income | 4 | (72) |
| Gross up of imputation credits | <u>(230)</u> | <u>(310)</u> |
| | (863) | (1,088) |
| Less imputation credits and other tax credits | 821 | 1,108 |
| Prior period adjustment | <u>-</u> | <u>(1)</u> |
| Income tax (expense)/credit as per Statement of Comprehensive Income | <u>(42)</u> | <u>19</u> |

Deferred tax

| | 2019 | 2018 |
|-------------------------|--------------------|------------------|
| | \$'000 | \$'000 |
| Opening balance | 10 | (22) |
| Current period movement | <u>(33)</u> | <u>32</u> |
| Closing balance | <u>(23)</u> | <u>10</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 521 | 453 |

NZ TOP 10 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|-------------------------------------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| Profit after tax | 15,583 | 9,183 |
| Weighted average number of units ('000) | <u>55,777</u> | <u>57,362</u> |
| Basic and diluted earnings per unit (cents per unit) | <u>27.94</u> | <u>16.01</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 2.27 | - | 1,297 |
| November 2017 (paid December 2017) | 31/03/2018 | 2.56 | - | 1,499 |
| May 2018 (paid June 2018) | 31/03/2019 | 1.53 | 833 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 2.05 | <u>1,153</u> | <u>-</u> |
| | | | <u>1,986</u> | <u>2,796</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 57,382,000 units on issue (2018: 54,132,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 5,000,000 (2018: 2,500,000) for total value of \$7,782,000 (2018: \$3,540,000).

The number of units redeemed during the year ended 31 March 2019 was 1,750,000 (2018: 4,951,000) for total value of \$2,777,000 (2018: \$7,155,000).

NZ TOP 10 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

5. UNITHOLDERS' FUNDS (Continued)

| | 2019 | 2018 |
|----------------------------------------------|----------------------|----------------------|
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 54,132 | 56,583 |
| Subscriptions received during the year | 5,000 | 2,500 |
| Redemptions made during the year | <u>(1,750)</u> | <u>(4,951)</u> |
| Units on issue at the end of the year | <u>57,382</u> | <u>54,132</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$1.72270 (2018: \$1.48249). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 1,998,033 units (2018: 815,937) valued at \$3,440,000 (2018: \$1,209,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$50,000 to SLI for the year ended 31 March 2019 (2018: \$273,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$259,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$147,000, with \$25,000 of outstanding accrued management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$491,000 with outstanding management fees due to the Manager of \$4,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$2,000 (2018: \$3,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$17,000 (2018: \$21,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

The Fund has a securities lending agreement with New Zealand Clearing Limited ("NZCL"), a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral provided by the borrower. As at 31 March 2019 the value of securities the Fund had on loan to NZCL was \$1,838,000 (2018: \$2,603,000).

Total security lending fees for the period ended 31 March 2019 amounted to \$15,000 (2018: \$22,000), with the accrued fees due to the Fund of \$1,000 (2018: \$2,000). The fees earned by the Fund above represent fifty percent of the total fee earned from the securities lending agreement the Fund has with NZCL. The other fifty percent is income paid to the Manager for administering the securities lending agreement.

NZ TOP 10 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and securities lending risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

Because the Fund tracks an New Zealand equity index and is fully invested in the index's underlying New Zealand equity securities, the value of the Fund will move up and down with the New Zealand market.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$9,803,000 (2018: \$7,919,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of AA- (2018: AA-) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ') and Bank of New Zealand Limited ('BNZ').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-----|----------------|---------------|----------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 195 | AA- | 160 | AA- |
| BNZ | 242 | AA- | 152 | AA- |
| | <u>437</u> | | <u>312</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investments in listed securities are considered readily realisable, as they are quoted on the NZX Main Board. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning the proportionate number of underlying securities in return for the units. Liquidity risk for the Fund is therefore low.

NZ TOP 10 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7d. Securities lending risk

A number of possible risks arise from the Fund's securities lending program. These include, but are not limited to, the risk that a borrower of securities fails to deliver equivalent securities on termination of a loan, the risk of failure of the central counterparty settlement system, the risk that the lending contract will for whatever reason not be legally enforceable.

In order to limit the Fund's exposure to risk that may arise from securities lending, the Fund has a limitation of 50% of the value of its securities it may lend at any point in time.

At 31 March 2019, the single borrower of the Fund's securities is New Zealand Clearing Limited ('NZCL'), a wholly owned subsidiary of NZX Limited.

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of NZ Top 10 Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of NZ Top 10 Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$995,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

NZ TOP 10 FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 98.5% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

NZ TOP 10 FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



NZ TOP 50 FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the NZ Top 50 Fund

NZ TOP 50 FUND

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NZ TOP 50 FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 -64 Customhouse Quay
Wellington 6011
New Zealand

INVESTMENT ADMINISTRATOR

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

INVESTMENT CUSTODIAN

JBWere (NZ) Nominees Limited

REGISTRAR

Link Market Services Limited

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

NZ TOP 50 FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The NZ Top 50 Fund (the 'Fund') was created by an establishment deed dated 9 September 2016 between the Manager and Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

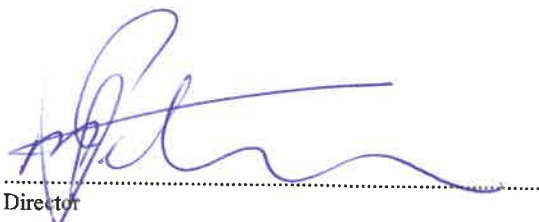
It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

NZ TOP 50 FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| INCOME | | | |
| Dividend income | | 18,862 | 11,122 |
| Securities lending income | | 30 | 48 |
| Net changes in fair value of financial assets at fair value through profit or loss | | <u>64,133</u> | <u>23,699</u> |
| Total income | | <u>83,025</u> | <u>34,869</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (2,385) | (1,282) |
| Miscellaneous expenses | | <u>(14)</u> | <u>(8)</u> |
| Total expenses | | <u>(2,399)</u> | <u>(1,290)</u> |
| Profit before tax | | 80,626 | 33,579 |
| Income tax expense | 1 | <u>(345)</u> | <u>(79)</u> |
| Profit after tax | | 80,281 | 33,500 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>80,281</u> | <u>33,500</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>43.07</u> | <u>29.89</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ TOP 50 FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|------------------------------|------------------------------|
| Unitholders' funds at the beginning of the year | | 384,018 | 210,313 |
| Total comprehensive income for the year | | <u>80,281</u> | <u>33,500</u> |
| Subscriptions from unitholders | 5 | 97,204 | 149,135 |
| Redemptions by unitholders | 5 | - | (958) |
| Distributions to unitholders | 4 | <u>(14,729)</u> | <u>(7,972)</u> |
| | | <u>82,475</u> | <u>140,205</u> |
| Unitholders' funds at the end of the year | | <u><u>546,774</u></u> | <u><u>384,018</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ TOP 50 FUND

**STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019**

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------|----------------|
| ASSETS | | | |
| Cash and cash equivalents | | 5,522 | 5,096 |
| Receivables | | 3,720 | 2,778 |
| Investments in equity securities at fair value through profit or loss | | 545,009 | 377,448 |
| Taxation receivable | | 1 | - |
| Unsettled sales of investments | | - | 369 |
| TOTAL ASSETS | | 554,252 | 385,691 |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (352) | (16) |
| Deferred tax payable | | (341) | (92) |
| Funds held for unit purchases | | (943) | (1,194) |
| Unsettled purchases of investments | | (5,841) | (369) |
| Other current liabilities | | (1) | (2) |
| TOTAL LIABILITIES | | (7,478) | (1,673) |
| UNITHOLDERS' FUNDS | | 546,774 | 384,018 |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | 554,252 | 385,691 |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.

Director

Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ TOP 50 FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|------------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 17,919 | 9,956 |
| Securities lending income received | | 31 | 49 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (2,049) | (1,275) |
| Taxation paid | | (97) | (62) |
| Miscellaneous expenses paid | | (14) | (8) |
| Net cash flows from operating activities | | <u>15,790</u> | <u>8,660</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 50,594 | 38,726 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | (65,810) | (54,923) |
| Net repayments to the Manager | | (1) | - |
| Net cash flows from investing activities | | <u>(15,217)</u> | <u>(16,197)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 14,582 | 15,666 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | - | (7) |
| Distributions paid to unitholders | | (14,729) | (7,972) |
| Net cash flows from financing activities | | <u>(147)</u> | <u>7,687</u> |
| Net increase in cash and cash equivalents | | 426 | 150 |
| Cash and cash equivalents at the beginning of the year | | <u>5,096</u> | <u>4,946</u> |
| Cash and cash equivalents at the end of the year | | <u>5,522</u> | <u>5,096</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 80,281 | 33,500 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (64,133) | (23,699) |
| Increase in taxation receivable | | (1) | - |
| Decrease in taxation payable | | - | (13) |
| Increase in deferred tax liability | | 249 | 30 |
| Increase in fund expenses payable | | 336 | 7 |
| Increase in receivables | | (942) | (1,165) |
| Net cash flows from operating activities | | <u>15,790</u> | <u>8,660</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ TOP 50 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The NZ Top 50 Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 9 September 2016 and commenced operations on 7 November 2016.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that tracks the S&P/NZX 50 Portfolio Index (the 'Index'). As prescribed by the Trust Deed, the Fund invests in the securities included in the Index broadly in proportion to the weightings of the Index. Investments are valued at fair value according to last traded market prices on the NZX Main Board on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

NZ TOP 50 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established. Foreign exchange gains and losses resulting from the settlement of dividends received from the companies incorporated overseas are recognised in the Statement of Comprehensive Income.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments and security lending income less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

NZ TOP 50 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends from its investments in securities and securities lending income after the deduction of management fees. The Fund is able to utilise imputation credits when they arise. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date. The temporary differences relate to accrued dividends and tax losses to be carried forward.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Securities lending

The Fund enters into securities lending transactions whereby it gives loans of securities recognised on the Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the lent securities or a portion of them. As all or substantially all risks and rewards are retained, the lent securities are not derecognised.

Segment information

The Fund invests solely in New Zealand equities. The Fund receives all of its income from its New Zealand equity investments.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

NZ TOP 50 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|---------------------|--------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (96) | (46) |
| Prior period adjustment | - | (3) |
| Deferred tax movement | <u>(249)</u> | <u>(30)</u> |
| Total tax expense | <u>(345)</u> | <u>(79)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

Income tax expense

| | 2019 | 2018 |
|-------------------------------------------------------------------------|---------------------|--------------------|
| | \$'000 | \$'000 |
| Profit before tax | <u>80,626</u> | <u>33,579</u> |
| Income tax using the statutory income tax rate of 28% | (22,575) | (9,402) |
| Net changes in fair value of financial assets and financial liabilities | 17,949 | 6,634 |
| Non-taxable income | 373 | 472 |
| Gross up of imputation credits | <u>(1,520)</u> | <u>(863)</u> |
| | (5,773) | (3,159) |
| Less imputation credits and other tax credits | 5,428 | 3,083 |
| Prior period adjustment | <u>-</u> | <u>(3)</u> |
| Income tax expense as per Statement of Comprehensive Income | <u>(345)</u> | <u>(79)</u> |

Deferred tax

| | 2019 | 2018 |
|-------------------------|---------------------|--------------------|
| | \$'000 | \$'000 |
| Opening balance | (92) | (62) |
| Current period movement | <u>(249)</u> | <u>(30)</u> |
| Closing balance | <u>(341)</u> | <u>(92)</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 2,321 | 1,787 |

NZ TOP 50 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable.

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 31 March 2019 and 31 March 2018.

| | 2019 | | | 2018 | | |
|-------------------|-----------------------|-------------------|-----------------------|-----------------------|-------------------|-----------------------|
| | Level 1 \$'000 | Level 3 \$'000 | Total \$'000 | Level 1 \$'000 | Level 3 \$'000 | Total \$'000 |
| Equity securities | <u>545,009</u> | <u>-</u> | <u>545,009</u> | <u>377,315</u> | <u>133*</u> | <u>377,448</u> |
| | <u>545,009</u> | <u>-</u> | <u>545,009</u> | <u>377,315</u> | <u>133</u> | <u>377,448</u> |

* CBL Limited

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

As at 31 March 2019 there was no transfer (2018: one) from level 1 to level 3 totalling \$nil (2018: \$133,000).

The Fund's level 3 investment was an unquoted investment held by the Fund which was reviewed on a monthly basis by the Fund's oversight committee. The Fund initially valued the investment using the entry price and subsequently revalued the investment per the Fund's 'Measurement' policy in the Statement of Accounting Policies.

The following table shows a reconciliation from the opening balances to the closing balances for the fair value measurements in level 3 of the fair value hierarchy.

| | 2019 \$'000 | 2018 \$'000 |
|-------------------------------------------|-----------------|-------------------|
| Opening balance | 133 | - |
| Total losses recognised in profit or loss | (133) | - |
| Transfer into Level 3 | <u>-</u> | <u>133</u> |
| Closing balance | <u>-</u> | <u>133</u> |

NZ TOP 50 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | 2019 | 2018 |
|-------------------------------------------------------------|--------------|--------------|
| Profit after tax | 80,281 | 33,500 |
| Weighted average number of units ('000) | 186,418 | 112,086 |
| Basic and diluted earnings per unit (cents per unit) | 43.07 | 29.89 |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | | Distribution per unit | 2019 | 2018 |
|------------------------------------|-------------------|----------------------------------|---------------|---------------|
| | Year ended | (cents per unit) | \$'000 | \$'000 |
| May 2017 (paid June 2017) | 31/03/2018 | 3.52 | - | 3,491 |
| November 2017 (paid December 2017) | 31/03/2018 | 4.26 | - | 4,481 |
| May 2018 (paid June 2018) | 31/03/2019 | 3.58 | 6,224 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 4.48 | 8,505 | - |
| | | | 14,729 | 7,972 |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 196,451,000 units on issue (2018: 157,851,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 38,600,000 (31 March 2018: 62,678,000) for total value of \$97,204,000 (2018: \$149,135,000).

The number of units redeemed during the year ended 31 March 2019 was nil (2018: 400,000) for total value of \$nil (2018: \$958,000).

| | 2019 | 2018 |
|----------------------------------------------|----------------|----------------|
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 157,851 | 95,573 |
| Subscriptions received during the year | 38,600 | 62,678 |
| Redemptions made during the year | - | (400) |
| Units on issue at the end of the year | 196,451 | 157,851 |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$2.78326 (2018: \$2.43279). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

NZ TOP 50 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board. The Fund holds shares in NZX Limited as NZX Limited shares constitute part of the Index that the Fund tracks.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 98,410,314 units (2018: 72,476,689) valued at \$273,755,000 (2018: \$176,143,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$7,407,000 to SLI for the year ended 2018 (2018: \$1,922,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$1,141,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$825,000, with \$143,000 of outstanding accrued management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$1,282,000 with outstanding management fees due to the Manager of \$16,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$15,000 (2018: \$34,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$127,000 (2018: \$82,000).

Other related party transactions

As at 31 March 2019 the Fund had a payable to the Manager of \$1,000 (2018 payable to the Manager of: \$2,000).

Total audit fees for the year ended 31 March 2019 amounted to \$5,000 (2018: \$5,000).

The Fund has a securities lending agreement with New Zealand Clearing Limited ("NZCL"), a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. As at 31 March 2019 the value of securities the Fund had on loan to NZCL was \$5,125,000 (2018: \$6,414,000).

Total security lending fees for the year ended 31 March 2019 amounted to \$30,000 (2018: \$48,000), with the accrued fees due to the Fund of \$3,000 (2018: \$4,000). The fees earned by the Fund above represent fifty percent of the total fee earned from the securities lending agreement the Fund has with NZCL. The other fifty percent is income by the Manager for administering the securities lending agreement.

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and securities lending risk. The risk management policies used by the Fund are detailed below:

NZ TOP 50 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

Because the Fund tracks an New Zealand equity index and is fully invested in the index's underlying New Zealand equity securities, the value of the Fund will move up and down with the New Zealand market.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$54,501,000 (2018: \$37,745,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all amounts due from brokers, cash and cash equivalents are held with counterparties with a credit rating of AA- (2018: A-) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ') and Bank of New Zealand Limited ('BNZ').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-----|----------------|---------------|----------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 1,338 | AA- | 1,589 | AA- |
| BNZ | 4,184 | AA- | 3,507 | AA- |
| | <u>5,522</u> | | <u>5,096</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investments in listed securities are considered readily realisable, as they are quoted on the NZX Main Board. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning the proportionate number of underlying securities in return for the units. Liquidity risk for the Fund is therefore low.

NZ TOP 50 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7d. Securities lending risk

A number of possible risks arise from the Fund's securities lending program. These include, but are not limited to, the risk that a borrower of securities fails to deliver equivalent securities on termination of a loan, the risk of failure of the central counterparty settlement system, the risk that the lending contract will for whatever reason not be legally enforceable.

In order to limit the Fund's exposure to risk that may arise as a result of securities lending, the Fund has a limitation of 50% of the value of its securities it may lend at any point in time.

At 31 March 2019, the single borrower of the Fund's securities is New Zealand Clearing Limited ('NZCL'), a wholly owned subsidiary of NZX Limited.

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of NZ Top 50 Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of NZ Top 50 Fund (the 'fund') on pages 3 to 15:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$995,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

NZ TOP 50 FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 98.3% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

NZ TOP 50 FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



TOTAL WORLD FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the Total World Fund

TOTAL WORLD FUND

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TOTAL WORLD FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)

Guy R. Elliffe

Mark J. Peterson

A. John Williams

Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand

Chartered Accountants House

Level 5, 50 - 64 Customhouse Quay

Wellington 6011

New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

TOTAL WORLD FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The Total World Fund (the 'Fund') was created by an establishment deed dated 10 July 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

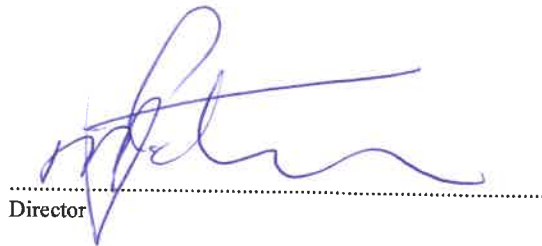
In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:
Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

TOTAL WORLD FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|---------------------|---------------------|
| INCOME | | | |
| Dividend income | | 942 | 801 |
| Net changes in fair value of financial assets at fair value through profit or loss | | <u>1,739</u> | <u>3,387</u> |
| Total income | | <u>2,681</u> | <u>4,188</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (179) | (166) |
| Foreign exchange loss | | <u>(1)</u> | <u>(12)</u> |
| Total expenses | | <u>(180)</u> | <u>(178)</u> |
| Profit before tax | | 2,501 | 4,010 |
| Income tax expense | 1 | <u>(507)</u> | <u>(468)</u> |
| Profit after tax | | 1,994 | 3,542 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>1,994</u> | <u>3,542</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>10.53</u> | <u>19.14</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

TOTAL WORLD FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|-----------------------------|-----------------------------|
| Unitholders' funds at the beginning of the year | | 33,248 | 32,025 |
| Total comprehensive income for the year | | <u>1,994</u> | <u>3,542</u> |
| Subscriptions from unitholders | 5 | 12,527 | 7,501 |
| Redemptions by unitholders | 5 | (571) | (9,522) |
| Distributions to unitholders | 4 | <u>(210)</u> | <u>(298)</u> |
| | | <u>11,746</u> | <u>(2,319)</u> |
| Unitholders' funds at the end of the year | | <u><u>46,988</u></u> | <u><u>33,248</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

TOTAL WORLD FUND

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 556 | 579 |
| Receivables | | - | 1 |
| Investments in equity securities at fair value through profit or loss | | <u>46,778</u> | <u>33,583</u> |
| TOTAL ASSETS | | <u>47,334</u> | <u>34,163</u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (30) | (1) |
| Taxation payable | | (170) | (205) |
| Funds held for unit purchases | | (146) | (249) |
| Unsettled purchases of investments | | <u>-</u> | <u>(460)</u> |
| TOTAL LIABILITIES | | <u>(346)</u> | <u>(915)</u> |
| UNITHOLDERS' FUNDS | | <u>46,988</u> | <u>33,248</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>47,334</u> | <u>34,163</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

TOTAL WORLD FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 802 | 784 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (150) | (166) |
| Taxation paid | | <u>(401)</u> | <u>(230)</u> |
| Net cash flows from operating activities | | <u>251</u> | <u>388</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | - | - |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | <u>(3,229)</u> | <u>(3,040)</u> |
| Net cash flows from investing activities | | <u>(3,229)</u> | <u>(3,040)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 3,167 | 3,194 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (2) | (12) |
| Distributions paid to unitholders | | <u>(210)</u> | <u>(298)</u> |
| Net cash flows from financing activities | | <u>2,955</u> | <u>2,884</u> |
| Net (decrease)/increase in cash and cash equivalents | | (23) | 232 |
| Cash and cash equivalents at the beginning of the year | | <u>579</u> | <u>347</u> |
| Cash and cash equivalents at the end of the year | | <u>556</u> | <u>579</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 1,994 | 3,542 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (1,739) | (3,387) |
| Foreign exchange loss | | 1 | 12 |
| (Decrease)/increase in taxation payable | | (35) | 118 |
| Increase in fund expenses payable | | 29 | - |
| Decrease in receivables | | <u>1</u> | <u>103</u> |
| Net cash flows from operating activities | | <u>251</u> | <u>388</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

TOTAL WORLD FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The Total World Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 10 July 2015 and commenced operations on 29 July 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that invests in the Vanguard Total World Stock ETF (the 'Underlying Fund'), which tracks the FTSE Global All Cap Index (the 'Underlying Index'). The Underlying Fund invests in securities contained in the Underlying Index broadly in proportion to the weightings of the Underlying Index. Investments are valued at fair value according to last traded market prices on the New York Stock Exchange Arca on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

TOTAL WORLD FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for units in the Underlying Fund and a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

TOTAL WORLD FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on investments in securities subject to the Fair Dividend Rate method ('FDR') after the deduction of management fees. FDR income is based on the market value of the security. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in the Underlying Fund being the Vanguard Total World Stock ETF. The Fund receives all of its dividend income from this investment.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

TOTAL WORLD FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (507) | (468) |
| Total tax expense | <u>(507)</u> | <u>(468)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|--------------|----------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | 2,501 | 4,010 |
| Income tax using the statutory income tax rate of 28% | <u>(700)</u> | <u>(1,123)</u> |
| Net changes in fair value of financial assets and financial liabilities | 487 | 948 |
| Non-taxable income | 265 | 223 |
| Tax on securities subject to FDR | (559) | (516) |
| | <u>(507)</u> | <u>(468)</u> |
| Income tax expense as per Statement of Comprehensive Income | <u>(507)</u> | <u>(468)</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 849 | 566 |

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

TOTAL WORLD FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | 2019 | 2018 |
|-------------------------------------------------------------|--------------|--------------|
| Profit after tax | 1,994 | 3,542 |
| Weighted average number of units ('000) | 18,933 | 18,507 |
| Basic and diluted earnings per unit (cents per unit) | 10.53 | 19.14 |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 0.98 | - | 171 |
| November 2017 (paid December 2017) | 31/03/2018 | 0.65 | - | 127 |
| May 2018 (paid June 2018) | 31/03/2019 | 0.31 | 52 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 0.80 | 158 | - |
| | | | 210 | 298 |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 21,800,000 units on issue (2018: 16,222,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 5,838,000 (2018: 3,718,000) for total value of \$12,527,000 (2018: \$7,501,000).

The number of units redeemed during the year ended 31 March 2019 was 260,000 (2018: 4,526,000) for total value of \$571,000 (2018: \$9,522,000).

| | 2019 '000 | 2018 '000 |
|----------------------------------------------|----------------------|----------------------|
| Movement in the number of units | | |
| Balance at the beginning of the year | 16,222 | 17,030 |
| Subscriptions received during the year | 5,838 | 3,718 |
| Redemptions made during the year | (260) | (4,526) |
| Units on issue at the end of the year | 21,800 | 16,222 |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$2.15541 (2018: \$2.04956). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

TOTAL WORLD FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 12,694,003 units (2018: 10,157,447) valued at \$27,327,000 (2018: \$20,538,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$127,000 to SLI for the year ended 31 March 2019 (2018: \$237,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$86,000. Total net management fees from 1 October to 31 March 2019 amounted to \$49,000 with \$9,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$166,000 with outstanding management fees due to the Manager of: \$1,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$1,000 (2018: \$6,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$5,000 (2018: \$5,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

The Fund's market price risk is affected by actual changes in market prices. As the Fund invests in an Underlying Fund which tracks an Underlying Index, any change in the Underlying Index will result in a corresponding change in the assets at fair value through profit or loss.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$4,678,000 (2018: \$3,358,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

TOTAL WORLD FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | 2019 | 2018 |
|----------------|---------------|----------------|
| Balance | Credit | Balance |
| \$'000 | rating | \$'000 |
| ANZ | 146 | 249 |
| BNP Paribas | - | - |
| Westpac | 410 | 330 |
| | <u>556</u> | <u>579</u> |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investment in the Vanguard Total World Stock ETF is considered readily realisable, as it is quoted on the New York Stock Exchange Arca. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning units in the Underlying Fund. Liquidity risk for the Fund is therefore low.

7d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in US dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the US dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$4,678,000 (2018: \$3,312,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|----------------------------------------------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Receivables | - | 1 |
| Investments in equity securities held at fair value through profit or loss | 46,778 | 33,583 |
| Unsettled purchase of investments | - | (460) |

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of Total World Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Total World Fund (the 'fund') on pages 3 to 13:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$473,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

TOTAL WORLD FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 98.8% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

TOTAL WORLD FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



US 500 FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the US 500 Fund

US 500 FUND

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US 500 FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80
Level 1, NZX Centre
Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

US 500 FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The US 500 Fund (the 'Fund') was created by an establishment deed dated 10 July 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

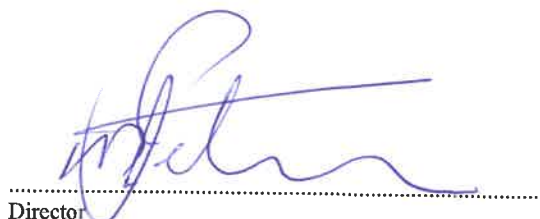
In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:
Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

US 500 FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|----------------------|----------------------|
| INCOME | | | |
| Dividend income | | 4,183 | 2,409 |
| Net changes in fair value of financial assets at fair value through profit or loss | | 24,267 | 7,865 |
| Foreign exchange gain | | <u>26</u> | <u>-</u> |
| Total income | | <u>28,476</u> | <u>10,274</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (604) | (357) |
| Foreign exchange loss | | <u>-</u> | <u>(198)</u> |
| Total expenses | | <u>(604)</u> | <u>(555)</u> |
| Profit before tax | | 27,872 | 9,719 |
| Income tax expense | 1 | <u>(2,637)</u> | <u>(1,558)</u> |
| Profit after tax | | 25,235 | 8,161 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>25,235</u> | <u>8,161</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>91.99</u> | <u>44.16</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US 500 FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|------------------------------|------------------------------|
| Unitholders' funds at the beginning of the year | | 167,047 | 106,101 |
| Total comprehensive income for the year | | <u>25,235</u> | <u>8,161</u> |
| Subscriptions from unitholders | 5 | 47,575 | 53,325 |
| Redemptions by unitholders | 5 | (13,423) | - |
| Distributions to unitholders | 4 | <u>(449)</u> | <u>(540)</u> |
| | | <u>33,703</u> | <u>52,785</u> |
| Unitholders' funds at the end of the year | | <u><u>225,985</u></u> | <u><u>167,047</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US 500 FUND


**STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019**

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 2,999 | 1,897 |
| Receivables | | 2 | - |
| Investments in equity securities at fair value through profit or loss | | <u>225,389</u> | <u>170,107</u> |
| TOTAL ASSETS | | <u>228,390</u> | <u>172,004</u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (88) | (4) |
| Taxation payable | | (1,320) | (854) |
| Funds held for unit purchases | | (502) | (493) |
| Unsettled purchases of investments | | <u>(495)</u> | <u>(3,606)</u> |
| TOTAL LIABILITIES | | <u>(2,405)</u> | <u>(4,957)</u> |
| UNITHOLDERS' FUNDS | | <u>225,985</u> | <u>167,047</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>228,390</u> | <u>172,004</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

US 500 FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 3,553 | 2,048 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (520) | (356) |
| Taxation paid | | <u>(1,543)</u> | <u>(676)</u> |
| Net cash flows from operating activities | | <u>1,490</u> | <u>1,016</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 35 | - |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | <u>(6,545)</u> | <u>(5,982)</u> |
| Net cash flows from investing activities | | <u>(6,510)</u> | <u>(5,982)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 6,598 | 6,002 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (27) | - |
| Distributions paid to unitholders | | <u>(449)</u> | <u>(540)</u> |
| Net cash flows from financing activities | | <u>6,122</u> | <u>5,462</u> |
| Net increase in cash and cash equivalents | | 1,102 | 496 |
| Cash and cash equivalents at the beginning of the year | | <u>1,897</u> | <u>1,401</u> |
| Cash and cash equivalents at the end of the year | | <u>2,999</u> | <u>1,897</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 25,235 | 8,161 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (24,267) | (7,865) |
| Foreign exchange (gain)/loss | | (26) | 198 |
| Increase in taxation payable | | 466 | 521 |
| Increase in fund expenses payable | | 84 | 1 |
| Increase in receivables | | <u>(2)</u> | <u>-</u> |
| Net cash flows from operating activities | | <u>1,490</u> | <u>1,016</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US 500 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The US 500 Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 10 July 2015 and commenced operations on 29 July 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that invests in the Vanguard S&P 500 ETF (the 'Underlying Fund'), which tracks the S&P 500 Index (the 'Underlying Index'). The Underlying Fund invests in securities contained in the Underlying Index broadly in proportion to the weightings of the Underlying Index. Investments are valued at fair value according to last traded market prices on the New York Stock Exchange Arca on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

US 500 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for units in the Underlying Fund and a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

US 500 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on investments in securities subject to the Fair Dividend Rate method ('FDR') after the deduction of management fees. FDR income is based on the market value of the security. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in the Underlying Fund being the Vanguard S&P 500 ETF. The Fund receives all of its dividend income from this investment.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

US 500 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|-----------------------|-----------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (2,637) | (1,558) |
| Total tax expense | <u><u>(2,637)</u></u> | <u><u>(1,558)</u></u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|-----------------------|-----------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | 27,872 | 9,719 |
| Income tax using the statutory income tax rate of 28% | <u>(7,804)</u> | <u>(2,721)</u> |
| Net changes in fair value of financial assets and financial liabilities | 6,801 | 2,197 |
| Non-taxable income | 1,184 | 628 |
| Tax on securities subject to FDR | <u>(2,818)</u> | <u>(1,662)</u> |
| | <u>(2,637)</u> | <u>(1,558)</u> |
| Income tax expense as per Statement of Comprehensive Income | <u><u>(2,637)</u></u> | <u><u>(1,558)</u></u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 3,936 | 2,101 |

US 500 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|-------------------------------------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| Profit after tax | 25,235 | 8,161 |
| Weighted average number of units ('000) | <u>27,431</u> | <u>18,479</u> |
| Basic and diluted earnings per unit (cents per unit) | <u>91.99</u> | <u>44.16</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 1.60 | - | 275 |
| November 2017 (paid December 2017) | 31/03/2018 | 1.46 | - | 265 |
| May 2018 (paid June 2018) | 31/03/2019 | 0.79 | 204 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 0.90 | <u>245</u> | <u>-</u> |
| | | | <u>449</u> | <u>540</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 29,548,000 units on issue (2018: 24,797,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 6,491,000 (2018: 7,750,000) for total value of \$47,575,000 (2018: \$53,325,000).

The number of units redeemed during the year ended 31 March 2019 was 1,740,000 (2018: nil) for total value of \$13,423,000 (2018: \$nil).

US 500 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

5. UNITHOLDERS' FUNDS (Continued)

| | 2019 | 2018 |
|----------------------------------------------|----------------------|----------------------|
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 24,797 | 17,047 |
| Subscriptions received during the year | 6,491 | 7,750 |
| Redemptions made during the year | (1,740) | - |
| Units on issue at the end of the year | <u>29,548</u> | <u>24,797</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$7.64806 (2018: \$6.73658). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 23,887,770 units (2018: 22,312,093) valued at \$182,279,000 (2018: \$147,956,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$381,000 to SLI for the year ended 31 March 2019 (2018: \$490,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$297,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$209,000, with \$37,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$357,000 with outstanding management fees due to the Manager of \$4,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$5,000 (2018: \$18,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$18,000 (2018: \$14,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

US 500 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

The Fund's market price risk is affected by actual changes in market prices. As the Fund invests in an Underlying Fund which tracks an Underlying Index, any change in the Underlying Index will result in a corresponding change in the assets at fair value through profit or loss.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$22,539,000 (2018: \$17,011,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-------------|---------------------|---------------|---------------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 502 | AA- | 493 | AA- |
| BNP Paribas | - | A+ | - | A |
| Westpac | <u>2,497</u> | AA- | <u>1,404</u> | AA- |
| | <u>2,999</u> | | <u>1,897</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investment in the Vanguard S&P 500 ETF is considered readily realisable, as it is quoted on the New York Stock Exchange Arca. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning units in the Underlying Fund. Liquidity risk for the Fund is therefore low.

US 500 FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in US dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the US dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$22,490,000 (2018: \$16,650,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|----------------------------------------------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Receivables | 2 | - |
| Investments in equity securities held at fair value through profit or loss | 225,389 | 170,107 |
| Unsettled purchase of investments | (495) | (3,606) |

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of US 500 Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of US 500 Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$2,284,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

US 500 FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 98.7% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

US 500 FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



US LARGE GROWTH FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the US Large Growth Fund

US LARGE GROWTH FUND

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US LARGE GROWTH FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

US LARGE GROWTH FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The US Large Growth Fund (the 'Fund') was created by an establishment deed dated 10 July 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

US LARGE GROWTH FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|---------------------|---------------------|
| INCOME | | | |
| Dividend income | | 336 | 419 |
| Net changes in fair value of financial assets at fair value through profit or loss | | 3,527 | 6,038 |
| Foreign exchange gain | | <u>-</u> | <u>-</u> |
| Total income | | <u>3,863</u> | <u>6,457</u> |
| EXPENSES | | | |
| Fund expenses | 5 | (118) | (176) |
| Foreign exchange loss | | <u>-</u> | <u>(16)</u> |
| Total expenses | | <u>(118)</u> | <u>(192)</u> |
| Profit before tax | | 3,745 | 6,265 |
| Income tax expense | 1 | <u>(334)</u> | <u>(499)</u> |
| Profit after tax | | 3,411 | 5,766 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>3,411</u> | <u>5,766</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>55.89</u> | <u>56.09</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US LARGE GROWTH FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|----------------------|----------------------|
| Unitholders' funds at the beginning of the year | | 20,377 | 36,432 |
| Total comprehensive income for the year | | <u>3,411</u> | <u>5,766</u> |
| Subscriptions from unitholders | 4 | 7,100 | 2,527 |
| Redemptions by unitholders | 4 | <u>(194)</u> | <u>(24,348)</u> |
| | | <u>6,906</u> | <u>(21,821)</u> |
| Unitholders' funds at the end of the year | | <u><u>30,694</u></u> | <u><u>20,377</u></u> |


The accompanying notes form part of and should be read in conjunction with these financial statements.

US LARGE GROWTH FUND

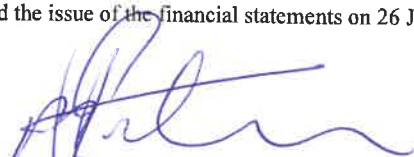
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 68 | 232 |
| Receivables | | 72 | - |
| Investments in equity securities at fair value through profit or loss | | 30,669 | 20,582 |
| Deferred tax asset | | <u>13</u> | <u>-</u> |
| TOTAL ASSETS | | <u>30,822</u> | <u>20,814</u> |
| LIABILITIES | | | |
| Fund expenses payable | 5 | (21) | (1) |
| Taxation payable | | (42) | (260) |
| Funds held for unit purchases | | (65) | (42) |
| Unsettled purchases of investments | | <u>-</u> | <u>(134)</u> |
| TOTAL LIABILITIES | | <u>(128)</u> | <u>(437)</u> |
| UNITHOLDERS' FUNDS | | <u>30,694</u> | <u>20,377</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>30,822</u> | <u>20,814</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



Director



Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

US LARGE GROWTH FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|-----------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 213 | 356 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (98) | (176) |
| Taxation paid | | <u>(514)</u> | <u>(294)</u> |
| Net cash flows from operating activities | | <u>(399)</u> | <u>(114)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 209 | 175 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | <u>(1,246)</u> | <u>(941)</u> |
| Net cash flows from investing activities | | <u>(1,037)</u> | <u>(766)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 1,272 | 929 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | <u>-</u> | <u>(6)</u> |
| Net cash flows from financing activities | | <u>1,272</u> | <u>923</u> |
| Net (decrease)/increase in cash and cash equivalents | | (164) | 43 |
| Cash and cash equivalents at the beginning of the year | | <u>232</u> | <u>189</u> |
| Cash and cash equivalents at the end of the year | | <u>68</u> | <u>232</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 3,411 | 5,766 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (3,527) | (6,038) |
| Foreign exchange loss | | - | 16 |
| (Decrease)/increase in taxation payable | | (218) | 142 |
| Increase in deferred tax asset | | (13) | - |
| Increase in fund expenses payable | | 20 | - |
| Increase in receivables | | <u>(72)</u> | <u>-</u> |
| Net cash flows from operating activities | | <u>(399)</u> | <u>(114)</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US LARGE GROWTH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The US Large Growth Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 10 July 2015 and commenced operations on 25 July 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that invests in the Vanguard Growth ETF (the 'Underlying Fund'), which tracks the CRSP US Large Cap Growth Index (the 'Underlying Index'). The Underlying Fund invests in securities contained in the Underlying Index broadly in proportion to the weightings of the Underlying Index. Investments are valued at fair value according to last traded market prices on the New York Stock Exchange Arca on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

US LARGE GROWTH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for units in the Underlying Fund and a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

US LARGE GROWTH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on investments in securities subject to the Fair Dividend Rate method ('FDR') after the deduction of management fees. FDR income is based on the market value of the security. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in the Underlying Fund being the Vanguard Growth ETF. The Fund receives all of its dividend income from this investment.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

There are a number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, as they were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

US LARGE GROWTH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (347) | (499) |
| Deferred tax movement | <u>13</u> | <u>-</u> |
| Total tax expense | <u>(334)</u> | <u>(499)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | <u>3,745</u> | <u>6,265</u> |
| Income tax using the statutory income tax rate of 28% | (1,049) | (1,754) |
| Net changes in fair value of financial assets and financial liabilities | 988 | 1,690 |
| Non-taxable income | 95 | 114 |
| Tax on securities subject to FDR | <u>(368)</u> | <u>(549)</u> |
| | (334) | (499) |
| Income tax expense as per Statement of Comprehensive Income | <u>(334)</u> | <u>(499)</u> |

Deferred tax

| | 2019 | 2019 |
|--------------------------|------------------|-----------------|
| | \$'000 | \$'000 |
| Opening balance | - | - |
| Current period movements | <u>13</u> | <u>-</u> |
| Closing balance | <u>13</u> | <u>-</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 1,284 | 988 |

US LARGE GROWTH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|-------------------------------------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| Profit after tax | 3,411 | 5,766 |
| Weighted average number of units ('000) | <u>6,103</u> | <u>10,280</u> |
| Basic and diluted earnings per unit (cents per unit) | <u>55.89</u> | <u>56.09</u> |

4. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 6,767,000 units on issue (2018: 5,215,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 1,597,000 (2018: 657,000) for total value of \$7,100,000 (2018: \$2,527,000).

The number of units redeemed during the year ended 31 March 2019 was 45,000 (2018: 5,921,000) for total value of \$194,000 (2018: \$24,348,000).

| | | |
|----------------------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 5,215 | 10,479 |
| Subscriptions received during the year | 1,597 | 657 |
| Redemptions made during the year | <u>(45)</u> | <u>(5,921)</u> |
| Units on issue at the end of the year | <u>6,767</u> | <u>5,215</u> |

US LARGE GROWTH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

4. UNITHOLDERS' FUNDS (Continued)

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$4.53584 (2018: \$3.90738). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

5. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 5,110,485 units (2018: 4,243,865) valued at \$23,101,000 (2018: \$16,296,000) in the Fund as at 31 March 2019.

Distributions

The Fund paid distributions of \$nil to SLI for the year ended 31 March 2019 (2018: \$nil).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$55,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$27,000, with \$4,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$176,000 with outstanding management fees due to the Manager of \$1,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$1,000 (2018: \$4,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$2,000 (2018: \$2,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

6. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

US LARGE GROWTH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. FINANCIAL RISK MANAGEMENT (Continued)

6a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

The Fund's market price risk is affected by actual changes in market prices. As the Fund invests in an Underlying Fund which tracks an Underlying Index, any change in the Underlying Index will result in a corresponding change in the assets at fair value through profit or loss.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$3,067,000 (2018: \$2,058,000).

6b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-------------|------------------|---------------|-------------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 65 | AA- | 42 | AA- |
| BNP Paribas | - | A+ | - | A |
| Westpac | <u>3</u> | AA- | <u>190</u> | AA- |
| | <u>68</u> | | <u>232</u> | |

6c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investment in the Vanguard Growth ETF is considered readily realisable, as it is quoted on the New York Stock Exchange Arca. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning units in the Underlying Fund. Liquidity risk for the Fund is therefore low.

6d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in US dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the US dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$3,074,000 (2018: \$2,045,000).

US LARGE GROWTH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. FINANCIAL RISK MANAGEMENT (Continued)

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|----------------------------------------------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Receivables | 72 | - |
| Investments in equity securities held at fair value through profit or loss | 30,669 | 20,582 |
| Unsettled purchase of investments | - | (134) |

7. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

8. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of US Large Growth Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of US Large Growth Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$308,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

US LARGE GROWTH FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 99.5% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

US LARGE GROWTH FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



US LARGE VALUE FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the US Large Value Fund

US LARGE VALUE FUND

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US LARGE VALUE FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

REGISTRAR

Link Market Services Limited

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

US LARGE VALUE FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The US Large Value Fund (the 'Fund') was created by an establishment deed dated 10 July 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

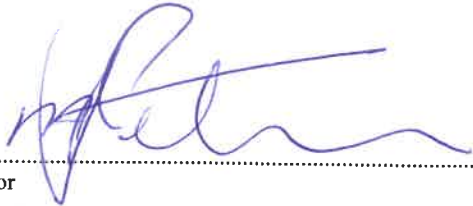
It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

US LARGE VALUE FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|---------------------|---------------------|
| INCOME | | | |
| Dividend income | | 1,697 | 1,026 |
| Net changes in fair value of financial assets at fair value through profit or loss | | 6,190 | 1,374 |
| Foreign exchange gain | | <u>6</u> | <u>-</u> |
| Total income | | <u>7,893</u> | <u>2,400</u> |
| EXPENSES | | | |
| Fund expenses | 6 | (286) | (174) |
| Foreign exchange loss | | <u>-</u> | <u>(91)</u> |
| Total expenses | | <u>(286)</u> | <u>(265)</u> |
| Profit before tax | | 7,607 | 2,135 |
| Income tax expense | 1 | <u>(798)</u> | <u>(489)</u> |
| Profit after tax | | 6,809 | 1,646 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>6,809</u> | <u>1,646</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>33.38</u> | <u>11.80</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US LARGE VALUE FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|-----------------------------|-----------------------------|
| Unitholders' funds at the beginning of the year | | 55,515 | 36,314 |
| Total comprehensive income for the year | | <u>6,809</u> | <u>1,646</u> |
| Subscriptions from unitholders | 5 | 10,616 | 17,876 |
| Redemptions by unitholders | 5 | (5,419) | - |
| Distributions to unitholders | 4 | <u>(448)</u> | <u>(321)</u> |
| | | <u>4,749</u> | <u>17,555</u> |
| Unitholders' funds at the end of the year | | <u><u>67,073</u></u> | <u><u>55,515</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US LARGE VALUE FUND

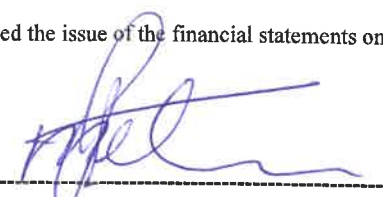
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 504 | 539 |
| Receivables | | 386 | - |
| Investments in equity securities at fair value through profit or loss | | 66,622 | 56,466 |
| Deferred tax asset | | <u>68</u> | <u>-</u> |
| TOTAL ASSETS | | <u>67,580</u> | <u>57,005</u> |
| LIABILITIES | | | |
| Fund expenses payable | 6 | (46) | (2) |
| Taxation payable | | (399) | (196) |
| Funds held for unit purchases | | (30) | (33) |
| Unsettled purchases of investments | | <u>(32)</u> | <u>(1,259)</u> |
| TOTAL LIABILITIES | | <u>(507)</u> | <u>(1,490)</u> |
| UNITHOLDERS' FUNDS | | <u>67,073</u> | <u>55,515</u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u>67,580</u> | <u>57,005</u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



 Director



 Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

US LARGE VALUE FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 1,057 | 872 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (242) | (173) |
| Taxation paid | | <u>(409)</u> | <u>(241)</u> |
| Net cash flows from operating activities | | <u>406</u> | <u>458</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | <u>(391)</u> | <u>(387)</u> |
| Net cash flows from investing activities | | <u>(391)</u> | <u>(387)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | 422 | 409 |
| <i>Cash was applied to:</i> | | | |
| Redemptions paid to unitholders | | (24) | - |
| Distributions paid to unitholders | | <u>(448)</u> | <u>(321)</u> |
| Net cash flows from financing activities | | <u>(50)</u> | <u>88</u> |
| Net (decrease)/increase in cash and cash equivalents | | (35) | 159 |
| Cash and cash equivalents at the beginning of the year | | <u>539</u> | <u>380</u> |
| Cash and cash equivalents at the end of the year | | <u>504</u> | <u>539</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 6,809 | 1,646 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (6,190) | (1,374) |
| Foreign exchange (gain)/loss | | (6) | 91 |
| Increase in taxation payable | | 203 | 94 |
| Increase in deferred tax asset | | (68) | - |
| Increase in fund expenses payable | | 44 | 1 |
| Increase in receivables | | <u>(386)</u> | <u>-</u> |
| Net cash flows from operating activities | | <u>406</u> | <u>458</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US LARGE VALUE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The US Large Value Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 10 July 2015 and commenced operations on 29 July 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that invests in the Vanguard Value ETF (the 'Underlying Fund'), which tracks the CRSP US Large Cap Value Index (the 'Underlying Index'). The Underlying Fund invests in securities contained in the Underlying Index broadly in proportion to the weightings of the Underlying Index. Investments are valued at fair value according to last traded market prices on the New York Stock Exchange Area on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

US LARGE VALUE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for units in the Underlying Fund and a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

US LARGE VALUE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on investments in securities subject to the Fair Dividend Rate method ('FDR') after the deduction of management fees. FDR income is based on the market value of the security. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in the Underlying Fund being the Vanguard Value ETF. The Fund receives all of its dividend income from this investment.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

US LARGE VALUE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (866) | (489) |
| Deferred tax movement | <u>68</u> | <u>-</u> |
| Total tax expense | <u>(798)</u> | <u>(489)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|-----------------------|---------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | <u>7,607</u> | <u>2,135</u> |
| Income tax using the statutory income tax rate of 28% | <u>(2,130)</u> | <u>(598)</u> |
| Net changes in fair value of financial assets and financial liabilities | 1,735 | 383 |
| Non-taxable income | 482 | 265 |
| Tax on securities subject to FDR | <u>(885)</u> | <u>(539)</u> |
| | <u>(798)</u> | <u>(489)</u> |
| Income tax expense as per Statement of Comprehensive Income | <u>(798)</u> | <u>(489)</u> |

Deferred tax

| | 2019 | 2019 |
|-------------------------|------------------|-----------------|
| | \$'000 | \$'000 |
| Opening balance | - | - |
| Current period movement | <u>68</u> | <u>-</u> |
| Closing balance | <u>68</u> | <u>-</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 934 | 496 |

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable'

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

US LARGE VALUE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|-------------------------------------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| Profit after tax | 6,809 | 1,646 |
| Weighted average number of units ('000) | <u>20,397</u> | <u>13,947</u> |
| Basic and diluted earnings per unit (cents per unit) | <u>33.38</u> | <u>11.80</u> |

4. DISTRIBUTION PAID TO UNITHOLDERS

Distributions declared and paid

| | Year ended | Distribution per unit (cents per unit) | 2019 \$'000 | 2018 \$'000 |
|------------------------------------|-------------------|-------------------------------------------------------|------------------------|------------------------|
| May 2017 (paid June 2017) | 31/03/2018 | 0.96 | - | 128 |
| November 2017 (paid December 2017) | 31/03/2018 | 1.43 | - | 193 |
| May 2018 (paid June 2018) | 31/03/2019 | 0.96 | 193 | - |
| November 2018 (paid December 2018) | 31/03/2019 | 1.30 | <u>255</u> | <u>-</u> |
| | | | <u>448</u> | <u>321</u> |

5. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 21,098,000 units on issue (2018: 19,290,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 3,483,000 (31 March 2018: 6,075,000) for total value of \$10,616,000 (2018: \$17,876,000).

The number of units redeemed during the year ended 31 March 2019 was 1,675,000 (2018: nil) for total value of \$5,419,000 (2018: \$nil).

| | | |
|----------------------------------------------|----------------------|----------------------|
| | 2019 | 2018 |
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 19,290 | 13,215 |
| Subscriptions received during the year | 3,483 | 6,075 |
| Redemptions made during the year | <u>(1,675)</u> | <u>-</u> |
| Units on issue at the end of the year | <u>21,098</u> | <u>19,290</u> |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flow) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$3.17912 (2018: \$2.87792). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

US LARGE VALUE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 20,254,206 units (2018: 19,057,971) valued at \$64,294,000 (2018: \$54,110,000) in the Fund as at 31 March 2019 .

Distributions

The Fund paid distributions of \$430,000 to SLI for the year ended 31 March 2019 (2018: \$309,000).

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$144,000. Total net management fees from 1 October to 31 March 2019 amounted to \$94,000 with \$17,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$174,000 with outstanding management fees due to the Manager of \$2,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$nil (2018: \$1,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$5,000 (2018: \$4,000).

Other related party transactions

Total audit fees for the year ended 31 March 2019 amounted to \$5,000 (2018: \$5,000).

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

The Fund's market price risk is affected by actual changes in market prices. As the Fund invests in an Underlying Fund which tracks an Underlying Index, any change in the Underlying Index will result in a corresponding change in the assets at fair value through profit or loss.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$6,662,000 (2018: \$5,647,000).

US LARGE VALUE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. FINANCIAL RISK MANAGEMENT (Continued)

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance | 2019 | Balance | 2018 |
|-------------|-------------------|---------------|-------------------|---------------|
| | \$'000 | Credit | \$'000 | Credit |
| | | rating | | rating |
| ANZ | 30 | AA- | 33 | AA- |
| BNP Paribas | - | A+ | - | A |
| Westpac | <u>474</u> | AA- | <u>506</u> | AA- |
| | <u>504</u> | | <u>539</u> | |

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investment in the Vanguard Value ETF is considered readily realisable, as it is quoted on the New York Stock Exchange Arca. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning units in the Underlying Fund. Liquidity risk for the Fund is therefore low.

7d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in US dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the US dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$6,698,000 (2018: \$5,521,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|-----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Receivables | 386 | - |
| Investment in equity securities | 66,622 | 56,466 |
| Unsettled purchase of investments | (32) | (1,259) |

8. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

US LARGE VALUE FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

9. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of US Large Value Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of US Large Value Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$676,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

US LARGE VALUE FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 98.6% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

US LARGE VALUE FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



US MID CAP FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the US Mid Cap Fund

US MID CAP FUND

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US MID CAP FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80
Email: smartshares@smartshares.co.nz
Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

US MID CAP FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The US Mid Cap Fund (the 'Fund') was created by an establishment deed dated 10 July 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

US MID CAP FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|---------------------|---------------------|
| INCOME | | | |
| Dividend income | | 1,079 | 526 |
| Net changes in fair value of financial assets at fair value through profit or loss | | 6,139 | 1,715 |
| Foreign exchange gain | | <u>4</u> | <u>-</u> |
| Total income | | <u>7,222</u> | <u>2,241</u> |
| EXPENSES | | | |
| Fund expenses | 5 | (292) | (142) |
| Foreign exchange loss | | <u>-</u> | <u>(124)</u> |
| Total expenses | | <u>(292)</u> | <u>(266)</u> |
| Profit before tax | | 6,930 | 1,975 |
| Income tax expense | 1 | <u>(821)</u> | <u>(401)</u> |
| Profit after tax | | 6,109 | 1,574 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>6,109</u> | <u>1,574</u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u>42.86</u> | <u>20.00</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US MID CAP FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|-----------------------------|-----------------------------|
| Unitholders' funds at the beginning of the year | | 56,918 | 28,656 |
| Total comprehensive income for the year | | <u>6,109</u> | <u>1,574</u> |
| Subscriptions from unitholders | 4 | 10,146 | 26,688 |
| Redemptions by unitholders | 4 | <u>(3,635)</u> | <u>-</u> |
| | | <u>6,511</u> | <u>26,688</u> |
| Unitholders' funds at the end of the year | | <u><u>69,538</u></u> | <u><u>56,918</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US MID CAP FUND

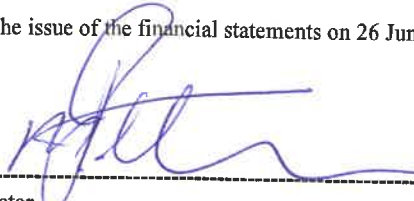
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 359 | 193 |
| Receivables | | 201 | - |
| Investments in equity securities at fair value through profit or loss | | 69,512 | 57,770 |
| Deferred tax asset | | 36 | - |
| TOTAL ASSETS | | <u><u>70,108</u></u> | <u><u>57,963</u></u> |
| LIABILITIES | | | |
| Fund expenses payable | 5 | (49) | (2) |
| Taxation payable | | (490) | (192) |
| Funds held for unit purchases | | (31) | (15) |
| Unsettled purchases of investments | | - | (836) |
| TOTAL LIABILITIES | | <u><u>(570)</u></u> | <u><u>(1,045)</u></u> |
| UNITHOLDERS' FUNDS | | <u><u>69,538</u></u> | <u><u>56,918</u></u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u><u>70,108</u></u> | <u><u>57,963</u></u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



 Director



 Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

US MID CAP FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 716 | 527 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (245) | (141) |
| Taxation paid | | <u>(397)</u> | <u>(216)</u> |
| Net cash flows from operating activities | | <u>74</u> | <u>170</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 90 | 74 |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | <u>(658)</u> | <u>(518)</u> |
| Net cash flows from investing activities | | <u>(568)</u> | <u>(444)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | <u>660</u> | <u>399</u> |
| Net cash flows from financing activities | | <u>660</u> | <u>399</u> |
| Net increase in cash and cash equivalents | | 166 | 125 |
| Cash and cash equivalents at the beginning of the year | | <u>193</u> | <u>68</u> |
| Cash and cash equivalents at the end of the year | | <u>359</u> | <u>193</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 6,109 | 1,574 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (6,139) | (1,715) |
| Foreign exchange (gain)/loss | | (4) | 124 |
| Increase in taxation payable | | 298 | 106 |
| Increase in deferred tax asset | | (36) | - |
| Increase in fund expenses payable | | 47 | 1 |
| (Increase)/decrease in receivables | | <u>(201)</u> | <u>80</u> |
| Net cash flows from operating activities | | <u>74</u> | <u>170</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The US Mid Cap Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 10 July 2015 and commenced operations on 29 July 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that invests in the Vanguard Mid Cap ETF (the 'Underlying Fund'), which tracks the CRSP US Mid Cap Index (the 'Underlying Index'). The Underlying Fund invests in securities contained in the Underlying Index broadly in proportion to the weightings of the Underlying Index. Investments are valued at fair value according to last traded market prices on the New York Stock Exchange Area on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

US MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for units in the Underlying Fund and a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

US MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on investments in securities subject to the Fair Dividend Rate method ('FDR') after the deduction of management fees. FDR income is based on the market value of the security. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in the Underlying Fund being the Vanguard Mid Cap ETF. The Fund receives all of its dividend income from this investment.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

US MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (857) | (401) |
| Deferred tax movement | <u>36</u> | <u>-</u> |
| Total tax expense | <u>(821)</u> | <u>(401)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | <u>6,930</u> | <u>1,975</u> |
| Income tax using the statutory income tax rate of 28% | (1,940) | (553) |
| Net changes in fair value of financial assets and financial liabilities | 1,720 | 479 |
| Non-taxable income | 307 | 114 |
| Tax on securities subject to FDR | <u>(908)</u> | <u>(441)</u> |
| | (821) | (401) |
| Income tax expense as per Statement of Comprehensive Income | <u>(821)</u> | <u>(401)</u> |

Deferred tax

| | 2019 | 2019 |
|-------------------------|------------------|-----------------|
| | \$'000 | \$'000 |
| Opening balance | - | - |
| Current period movement | <u>36</u> | <u>-</u> |
| Closing balance | <u>36</u> | <u>-</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 1,356 | 661 |

US MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | | |
|-------------------------------------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| Profit after tax | 6,109 | 1,574 |
| Weighted average number of units ('000) | <u>14,255</u> | <u>7,870</u> |
| Basic and diluted earnings per unit (cents per unit) | <u>42.86</u> | <u>20.00</u> |

4. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 14,785,000 units on issue (2018: 13,330,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 2,237,000 (2018: 6,145,000) for total value of \$10,146,000 (2018: \$26,688,000).

The number of units redeemed during the year ended 31 March 2019 was 782,000 (2018: nil) for total value of \$3,635,000 (2018: \$nil).

| | | |
|----------------------------------------------|----------------------|----------------------|
| | 2019 | 2018 |
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 13,330 | 7,185 |
| Subscriptions received during the year | 2,237 | 6,145 |
| Redemptions made during the year | <u>(782)</u> | <u>-</u> |
| Units on issue at the end of the year | <u>14,785</u> | <u>13,330</u> |

US MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

4. UNITHOLDERS' FUNDS (Continued)

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$4.70328 (2018: \$4.26992). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

5. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 13,932,213 units (2018: 12,860,393) valued at \$65,354,000 (2018: \$54,100,000) in the Fund as at 31 March 2019.

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$147,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$94,000, with \$18,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$142,000 with outstanding management fees due to the Manager of \$2,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$nil (2018: \$1,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$3,000 (2018: \$1,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

6. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

6a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

The Fund's market price risk is affected by actual changes in market prices. As the Fund invests in an Underlying Fund which tracks an Underlying Index, any change in the Underlying Index will result in a corresponding change in the assets at fair value through profit or loss.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$6,951,000 (2018: \$5,777,000).

US MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. FINANCIAL RISK MANAGEMENT (Continued)

6b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ or higher (2018: A or higher). The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | 2019 | 2018 |
|----------------|-------------------|-------------------|
| Balance | Credit | Balance |
| \$'000 | rating | \$'000 |
| Credit | rating | Credit |
| rating | rating | rating |
| ANZ | 31 AA- | 15 AA- |
| BNP Paribas | - A+ | - A |
| Westpac | 328 AA- | 178 AA- |
| | <u>359</u> | <u>193</u> |

6c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investment in the Vanguard Mid Cap ETF is considered readily realisable, as it is quoted on the New York Stock Exchange Arca. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning units in the Underlying Fund. Liquidity risk for the Fund is therefore low.

6d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in US dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the US dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$6,971,000 (2018: \$5,693,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 | 2018 |
|-----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Receivables | 201 | - |
| Investment in equity securities | 69,512 | 57,770 |
| Unsettled purchase of investments | - | (836) |

US MID CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

7. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

8. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of US Mid Cap Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of US Mid Cap Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$701,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

US MID CAP FUND



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 99.1% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

US MID CAP FUND



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington

26 June 2019



US SMALL CAP FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

Presented by Smartshares Limited, Manager of the US Small Cap Fund

US SMALL CAP FUND

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US SMALL CAP FUND

DIRECTORY

MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street
Auckland 1010
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

DIRECTORS OF THE MANAGER

Paul J. Baldwin (resigned 17 December 2018)
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (appointed 26 June 2018, Chair)

SOLICITOR

DLA Piper New Zealand
Chartered Accountants House
Level 5, 50 - 64 Customhouse Quay
Wellington 6011
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand
branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

US SMALL CAP FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The US Small Cap Fund (the 'Fund') was created by an establishment deed dated 10 July 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

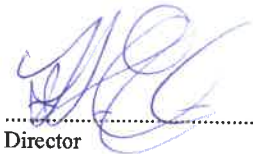
STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2019, and the results of its financial performance and cash flows for the year ended 31 March 2019 in accordance with the requirement of the Trust Deed.

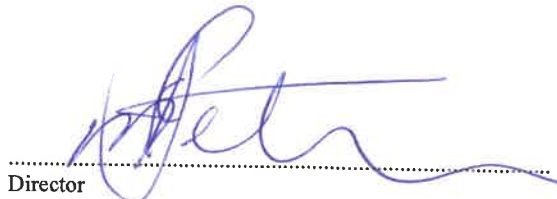
It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing by Directors' Resolution in writing on 26 June 2019.

US SMALL CAP FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|------------------------------------------------------------------------------------|------|----------------------------|----------------------------|
| INCOME | | | |
| Dividend income | | 851 | 486 |
| Net changes in fair value of financial assets at fair value through profit or loss | | <u>5,134</u> | <u>1,732</u> |
| Total income | | <u>5,985</u> | <u>2,218</u> |
| EXPENSES | | | |
| Fund expenses | 5 | (256) | (137) |
| Foreign exchange loss | | <u>(3)</u> | <u>(87)</u> |
| Total expenses | | <u>(259)</u> | <u>(224)</u> |
| Profit before tax | | 5,726 | 1,994 |
| Income tax expense | 1 | <u>(721)</u> | <u>(388)</u> |
| Profit after tax | | 5,005 | 1,606 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u><u>5,005</u></u> | <u><u>1,606</u></u> |
| EARNINGS PER UNIT | | | |
| Basic and diluted earnings per unit (cents per unit) | 3 | <u><u>39.00</u></u> | <u><u>20.21</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US SMALL CAP FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------------------------|------|-----------------------------|-----------------------------|
| Unitholders' funds at the beginning of the year | | 48,991 | 28,317 |
| Total comprehensive income for the year | | <u>5,005</u> | <u>1,606</u> |
| Subscriptions from unitholders | 4 | 10,547 | 19,068 |
| Redemptions by unitholders | 4 | <u>(3,515)</u> | <u>-</u> |
| | | <u>7,032</u> | <u>19,068</u> |
| Unitholders' funds at the end of the year | | <u><u>61,028</u></u> | <u><u>48,991</u></u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US SMALL CAP FUND

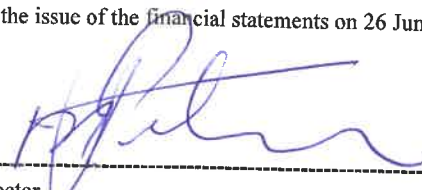
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------------------------------------------|------|----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 298 | 206 |
| Receivables | | 162 | - |
| Investments in equity securities at fair value through profit or loss | | 61,042 | 49,626 |
| Deferred tax asset | | 29 | - |
| TOTAL ASSETS | | <u><u>61,531</u></u> | <u><u>49,832</u></u> |
| LIABILITIES | | | |
| Fund expenses payable | 5 | (45) | (2) |
| Taxation payable | | (432) | (201) |
| Funds held for unit purchases | | (26) | (22) |
| Unsettled purchases of investments | | - | (616) |
| TOTAL LIABILITIES | | <u><u>(503)</u></u> | <u><u>(841)</u></u> |
| UNITHOLDERS' FUNDS | | <u><u>61,028</u></u> | <u><u>48,991</u></u> |
| TOTAL LIABILITIES AND UNITHOLDERS' FUNDS | | <u><u>61,531</u></u> | <u><u>49,832</u></u> |

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 26 June 2019.



 Director



 Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

US SMALL CAP FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------------------------------------------------------|------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Dividend income received | | 561 | 413 |
| <i>Cash was applied to:</i> | | | |
| Fund expenses paid | | (213) | (136) |
| Taxation paid | | <u>(391)</u> | <u>(201)</u> |
| Net cash flows from operating activities | | <u>(43)</u> | <u>76</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Sale of investments | | 156 | - |
| <i>Cash was applied to:</i> | | | |
| Purchase of investments | | <u>(678)</u> | <u>(589)</u> |
| Net cash flows from investing activities | | <u>(522)</u> | <u>(589)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| Subscriptions received from unitholders | | <u>657</u> | <u>530</u> |
| Net cash flows from financing activities | | <u>657</u> | <u>530</u> |
| Net increase in cash and cash equivalents | | 92 | 17 |
| Cash and cash equivalents at the beginning of the year | | <u>206</u> | <u>189</u> |
| Cash and cash equivalents at the end of the year | | <u>298</u> | <u>206</u> |
| Reconciliation of profit after tax to net cash flows from operating activities | | | |
| Profit after tax | | 5,005 | 1,606 |
| Net changes in fair value of financial assets at fair value through profit or loss | | (5,134) | (1,732) |
| Foreign exchange gain | | 3 | 87 |
| Increase in taxation payable | | 231 | 114 |
| Increase in deferred tax asset | | (29) | - |
| Increase in fund expenses payable | | 43 | 1 |
| Increase in receivables | | <u>(162)</u> | <u>-</u> |
| Net cash flows from operating activities | | <u>(43)</u> | <u>76</u> |

The accompanying notes form part of and should be read in conjunction with these financial statements.

US SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

GENERAL INFORMATION

The US Small Cap Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 10 July 2015 and commenced operations on 29 July 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that invests in the Vanguard Small Cap ETF (the 'Underlying Fund'), which tracks the CRSP US Small Cap Index (the 'Underlying Index'). The Underlying Fund invests in securities contained in the Underlying Index broadly in proportion to the weightings of the Underlying Index. Investments are valued at fair value according to last traded market prices on the New York Stock Exchange Area on 29 March 2019.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the years presented.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition, derecognition and measurement

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of financial instruments traded is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded price.

US SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Financial assets and financial liabilities measured at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost

NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash contributions, withdrawals and distributions.

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for units in the Underlying Fund and a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption, which is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Distributions to unitholders

Distributions are made up of income received from the Fund's investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record dates for the distributions are the last business days of May and November each year. Currently, distributions are paid to unitholders within 20 business days of the record date.

US SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on investments in securities subject to the Fair Dividend Rate method ('FDR') after the deduction of management fees. FDR income is based on the market value of the security. The Fund is able to utilise foreign withholding tax credits when they are available. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund invests solely in the Underlying Fund being the Vanguard Small Cap ETF. The Fund receives all of its dividend income from this investment.

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

(b) New accounting standards adopted

The Fund has applied the following standards and amendments for the first time for the annual reporting period commencing 1 April 2018.

(i) NZ IFRS 9: *Financial Instruments*

The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior periods.

(ii) NZ IFRS 15: *Revenue from contracts with customers*

The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the application of NZ IFRS 15 had no impact on the Fund's financial statements.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2019, and were identified as not applicable to the Fund. Therefore they are not included in the financial statements.

US SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. TAXATION

| | 2019 | 2018 |
|-------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Tax expense comprises: | | |
| Current tax expense | (750) | (388) |
| Deferred tax movement | <u>29</u> | <u>-</u> |
| Total tax expense | <u>(721)</u> | <u>(388)</u> |

The prima facie income tax expense on profit before tax reconciles to the income tax expense in the financial statements as follows:

| | 2019 | 2018 |
|-------------------------------------------------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Profit before tax | <u>5,726</u> | <u>1,994</u> |
| Income tax using the statutory income tax rate of 28% | (1,603) | (558) |
| Net changes in fair value of financial assets and financial liabilities | 1,438 | 484 |
| Non-taxable income | 240 | 113 |
| Tax on securities subject to FDR | <u>(796)</u> | <u>(427)</u> |
| | (721) | (388) |
| Income tax expense as per Statement of Comprehensive Income | <u>(721)</u> | <u>(388)</u> |

Deferred tax

| | 2019 | 2019 |
|-------------------------|------------------|-----------------|
| | \$'000 | \$'000 |
| Opening balance | - | - |
| Current period movement | <u>29</u> | <u>-</u> |
| Closing balance | <u>29</u> | <u>-</u> |

Imputation credit account (ICA)

| | 2019 | 2018 |
|------------------------------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Imputation credits available for use in subsequent periods | 1,274 | 652 |

US SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2019 (2018: none).

3. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| | 2019 | 2018 |
|-------------------------------------------------------------|--------------|--------------|
| Profit after tax | 5,005 | 1,606 |
| Weighted average number of units ('000) | 12,834 | 7,945 |
| Basic and diluted earnings per unit (cents per unit) | 39.00 | 20.21 |

4. UNITHOLDERS' FUNDS

As at 31 March 2019 there were 13,657,000 units on issue (2018: 12,028,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2019 was 2,400,000 (2018: 4,621,000) for total value of \$10,547,000 (2018: \$19,068,000).

The number of units redeemed during the year ended 31 March 2019 was 771,000 (2018: nil) for total value of \$3,515,000 (2018: \$nil).

| | 2019 | 2018 |
|----------------------------------------------|---------------|---------------|
| | '000 | '000 |
| Movement in the number of units | | |
| Balance at the beginning of the year | 12,028 | 7,407 |
| Subscriptions received during the year | 2,400 | 4,621 |
| Redemptions made during the year | (771) | - |
| Units on issue at the end of the year | 13,657 | 12,028 |

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash (per the Statement of Cash Flows) also includes new direct applications for units as well as regular contributions by current unitholders.

US SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

4. UNITHOLDERS' FUNDS (Continued)

The net asset value of each unit per the financial statements is \$4.46862 (2018: \$4.07308). Any difference between the net asset value announced to the market for 29 March 2019 and the net asset value per the financial statements is due to different unit pricing methodology.

5. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 12,696,360 units (2018: 11,691,612) valued at \$56,730,000 (2018: \$46,981,000) in the Fund as at 31 March 2019.

Payments to the Manager

Management fees are included within fund expenses. The Manager receives management fees for managing the Fund. Prior to 1 October 2018, the Manager received a gross management fee from the Fund and paid all other fund related expenses from this fee. From 1 October 2018, the Fund itself pays all fund related expenses and the Manager receives a net management fee.

Total gross management fees for the 6 month period to 30 September 2018 amounted to \$130,000. Total net management fees from 1 October 2018 to 31 March 2019 amounted to \$77,000, with \$14,000 of outstanding management fees due to the Manager at the end of the year. For the year ended 31 March 2018 total gross management fees for the year amounted to \$137,000 with outstanding management fees due to the Manager of \$2,000 at 31 March 2018.

Under the Trust Deed the Manager receives direct purchase application fees and interest earned on cash at banks. Total direct purchase application fees for the year ended 31 March 2019 amounted to \$nil (2018: \$2,000). Total interest earned on cash at banks for the year ended 31 March 2019 amounted to \$3,000 (2018: \$2,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2019 was \$5,000 (2018: \$5,000).

6. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

6a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

The Fund's market price risk is affected by actual changes in market prices. As the Fund invests in an Underlying Fund which tracks an Underlying Index, any change in the Underlying Index will result in a corresponding change in the assets at fair value through profit or loss.

A 10% increase/decrease in equity prices as at 31 March 2019 would have increased/decreased net profit and unitholder funds by \$6,104,000 (2018: \$4,963,000).

US SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. FINANCIAL RISK MANAGEMENT (Continued)

6b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2019 all cash and cash equivalents are held with counterparties with a credit rating of A+ (2018: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

| | Balance \$'000 | 2019 Credit rating | Balance \$'000 | 2018 Credit rating |
|-------------|-------------------|--------------------------|-------------------|--------------------------|
| ANZ | 26 | AA- | 22 | AA- |
| BNP Paribas | - | A+ | - | A |
| Westpac | <u>272</u> | AA- | <u>184</u> | AA- |
| | <u><u>298</u></u> | | <u><u>206</u></u> | |

6c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investment in the Vanguard Small Cap ETF is considered readily realisable, as it is quoted on the New York Stock Exchange Arca. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning units in the Underlying Fund. Liquidity risk for the Fund is therefore low.

6d. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in US dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the US dollar as at 31 March 2019 would have decreased/increased profit and unitholders funds by \$6,120,000 (2018: \$4,901,000).

The table below summarises the Fund's exposure to currency risks.

| | 2019 \$'000 | 2018 \$'000 |
|----------------------------------------------------------------------------|----------------|----------------|
| Receivables | 162 | - |
| Investments in equity securities held at fair value through profit or loss | 61,042 | 49,626 |
| Unsettled purchase of investments | - | (616) |

7. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2019 (2018: nil).

US SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

8. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2019 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.

US SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019



Independent Auditor's Report

To the unitholders of US Small Cap Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of US Small Cap Fund (the 'fund') on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$615,000 determined with reference to a benchmark of fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

US SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the unitholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

The fund's portfolio of investments makes up 99.2% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2019 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the details and changes to the scheme and other information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This independent auditor's report is made solely to the unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

US SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG
Wellington
26 June 2019