

NIKKO AM NZ INVESTMENT SCHEME

Other Material Information
- Nikko AM Freedom Fund

Dated 3 September 2021

Issued by Nikko Asset Management
New Zealand Limited

Nikko AM Investment Scheme – Nikko AM Freedom Fund

The Nikko AM Freedom Fund has been established to enable clients to use their capital to support the work of TearFund to combat human trafficking and modern slavery. TearFund is a NZ registered charity. Under the Establishment Deed, the Manager may change the charity at any time and notify investors in the Freedom Fund.

How does the Fund work?

Overview

As an investor in the Freedom Fund (the **Fund**) you are buying units on the basis that all investment returns are donated to charity with the specific purpose of supporting efforts to combat modern slavery and human trafficking.

Unlike a typical charitable donation where a donor gifts money to a particular cause, as an investor in the Freedom Fund you retain full ownership of the capital and can request a full or partial return of your investment at any time. During the time your capital is invested in the Fund, all the investment returns generated by the Fund will be provided to the charity without any deductions for tax or fund expenses. For example, if you invest \$10,000 and the Fund generates a return, above fees, of 2.5%, then \$250 will be gifted to the charity (along with the fees) and you will continue to have \$10,000 invested.

You will not receive any investment return but your capital will be at risk. The investment risk is low as the underlying investments will be predominantly cash and bonds, but there is still a risk of capital loss.

You will be able to redeem units at any point and have your capital returned to you. In some cases the capital returned may be lower than what was originally invested.

There are no expenses charged to the Freedom Fund, as all service providers involved have agreed to provide their services at no cost. Nikko AM's management fee charged to the Fund will be donated in full each month along with the proceeds from investment returns.

The investment returns provided to the charity will also be paid gross of tax. No tax is attributable to individual investors on any investment returns due to these being used entirely for charitable purposes.

How this applies to returns

The fund has a positive return

If the Fund has assets of \$1,000,000 and generates a return of 2.5% during the year with an annual management fee of 0.30%, then the \$25,000 investment return and \$3,000 management fee will be donated to the charity. No tax will be paid by investors as their capital will be worth the same as the amount they invested.

The fund has a negative return

If the Fund has assets of \$1,000,000 and generates a loss of 2.5% during the year, then the Fund will fall in value to \$972,000 (each investor will suffer a 2.5% loss on their capital, and a 0.30% management fee). No investment returns will be available to donate to the charity, but the \$3,000 management fee will be donated.

Pricing and Accruals

You can buy units in the Fund at any time. The purchase price for units is fixed at \$1.00 irrespective of the market value of the underlying assets. This may mean that immediately after you purchase units the value of your holding is less than the purchase price of your holding. The unit price is calculated daily and capped at \$1.00. Investment returns arising will be allocated on a daily basis for payment to the charity, and not accrued in the unit price.

The amount available to donate to the charity will go up or down depending on investment performance of the underlying assets. As such, if there is negative performance on any given day the amount available to donate will be reduced and either:

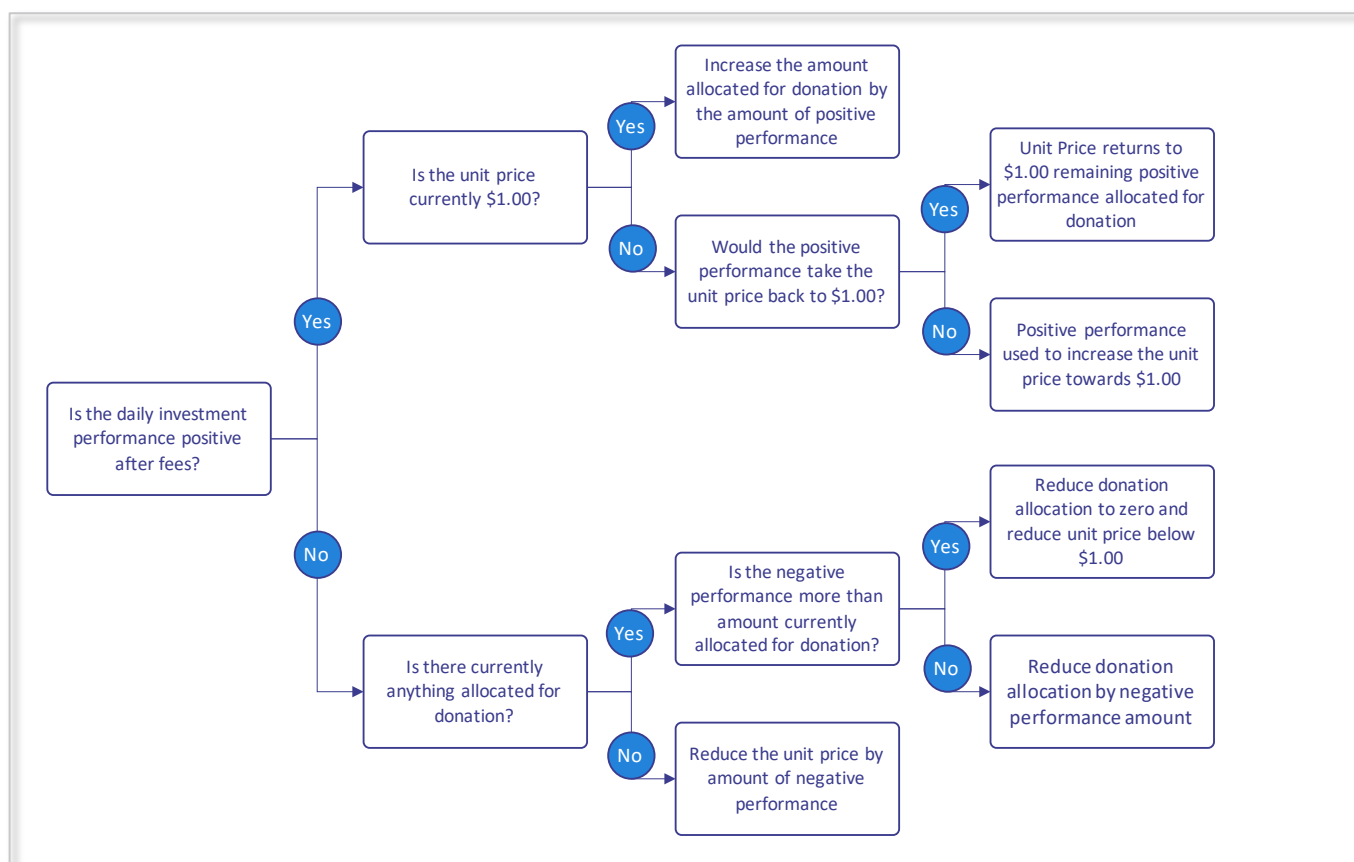
- (i) the donation balance will still be positive and the unit price will be maintained at \$1.00, or
- (ii) the donation will be reduced to zero and the unit price will go below \$1.00.

In the event that the unit price is below \$1.00, all future investment gains will be retained in the Freedom Fund for the benefit of investors until such time as the unit price returns to \$1.00. Once the unit price returns to \$1.00, the investment returns will be used to increase the amount available for donations to the charity.

Regular payments to the charity will be made throughout the year, with an annual process to ensure all investment gains for a 12 month period have been donated to the charity. Investment gains are held in the name of the Supervisor until they are donated and are not available to the Manager.

You can redeem your units in the Fund at any time. Redeeming units when the unit price is less than \$1.00 will result in you receiving back less than you invested.

A diagram setting out how the unit price and amount allocated to the charity may change each day is shown below:



Donations

Donations are paid directly from the Fund to the charity. Charitable donations tax rebates, for donations made by the Fund, are not claimable by the investor outside of the Fund. (See Tax Treatment section below).

The amount available for donations will increase as investment gains, over and above the capital value of investors' funds, are made in the Freedom Fund. In order to deliver a smoother stream of income, the donations from the investment returns will generally be paid monthly at a fixed rate that Nikko AM will determine periodically. Donations will only be paid if there is a sufficient amount of positive investment gain generated by the Freedom Fund to cover the donation amount.

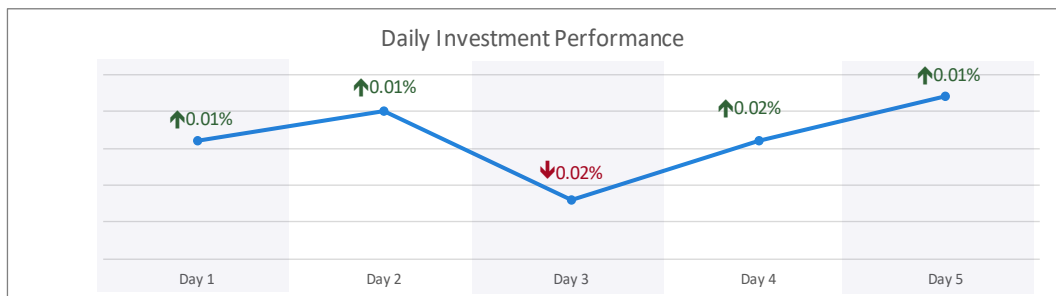
At the end of each year, any residual investment returns in the Freedom Fund that have not been paid to the charity through the regular payments will result in a wash up payment being made to the charity. At financial year end or shortly after, all investment returns from the unit price exceeding \$1.00 and all management fees will have been paid to the charity. If, at the end of the year, the unit price is below \$1.00 there will be no additional donations to the charity, and returns from the following year will be used initially to return the unit price to \$1.00 before donations recommence.

How investment performance can impact donations and value of your investment

	Day 1	Day 3	Day 5
Investment Performance	Positive	Negative	Positive
Unit Price	\$1	less than \$1	\$1
Capital Value <i>(Amount received if redeemed)</i>	Equal to Original Investment	Less than Original Investment	Equal to Original Investment
Total Donation	Increases	Decreases	Increases

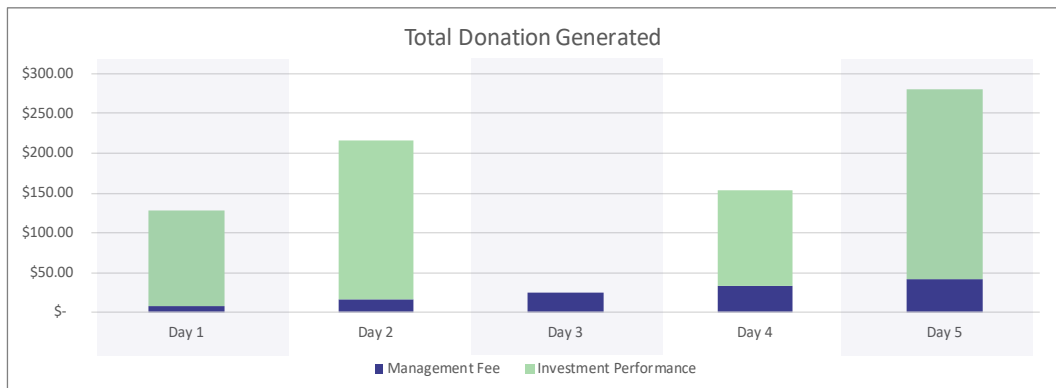
Investment Performance

Changes each day based on the value of underlying investments.



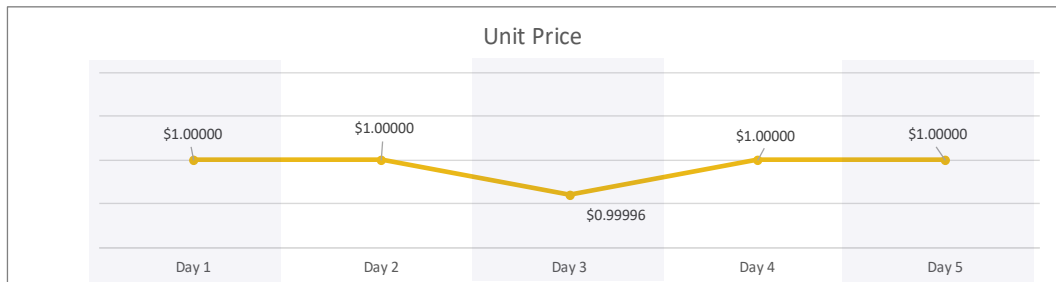
Donations

Each day the amount that can be donated will change based in the investment performance. The management fee is added each day. Donation payments are made monthly with a final 'true-up' determined at the year end.



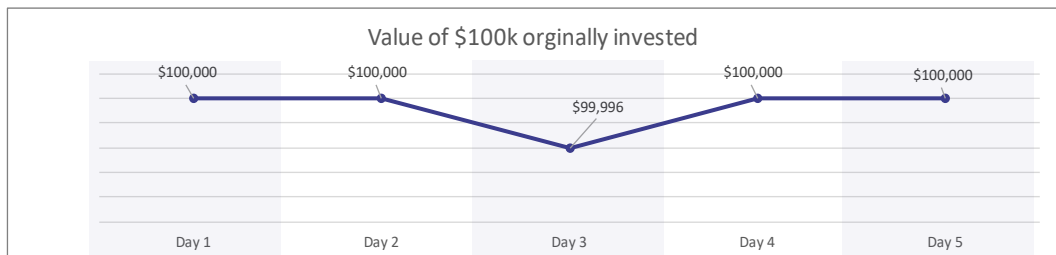
Unit Price

Remains at \$1.00 but can fall below \$1.00 if there is a large enough investment loss.



Capital Value

The value of your capital that is working for the charity. This can fall below the original amount invested.



Tax treatment

The Freedom Fund will be a PIE for tax purposes and investors will need to provide their relevant tax details (such as their IRD number and Prescribed Investor Rate). However no taxable income or losses will be attributable to investors; neither in respect of any particular tax year, nor on redemption during the year. All investment returns will be paid to the charity in full every year.

As investors will not be liable for any tax within the Freedom Fund, and because the donations are paid gross of tax directly by the Fund, the **donations are not eligible for a charitable donations tax rebate by investors.**

This structure is more efficient for the charity than donating the money from post-tax returns. The example below sets out a comparison between the Freedom Fund and donating the returns from an investment in alternative tax paying structures:

	Freedom Fund	Donating Investment returns from a similar PIE Fund	Donating Returns from a Term Deposit
Amount Invested at the start of the year	\$100,000	\$100,000	\$100,000
Investment return before Tax and Fees ¹	2.8% = \$2,800	2.8% = \$2,800 Management Fee = \$300	1.0% = \$1,000
Tax to Pay	\$0	\$700 Assuming 28% PIR (28% x \$2,500)	\$330 Assuming marginal tax rate of 33% (33% * \$1,000)
Amount received by Charity	\$2,800 (100% of investment returns and management fee donated with no tax deducted)	\$1,800 (\$2,800 less tax and fees)	\$670 (\$1,000 less tax and fees)
Capital Value available to the investor at the end of the year	\$100,000²	\$100,000²	\$100,000
Charitable donation rebate:	Not Applicable	\$600 (1/3 x \$1,800)	\$223.33 (1/3 x \$670)

¹Investment returns are indicative only and are not guaranteed.

²The investment value is not guaranteed and could be less than the amount invested if there are negative investment returns