

**Simplicity**

**Investment Funds**



# **Other Material Information (OMI)**

3 May 2024

**Simplicity NZ Limited**



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# 1. General

This Other Material Information Document (**Document**) has been prepared to meet the requirements of section 57(1)(b)(ii) of the Financial Markets Conduct Act 2013 (**FMC Act**) and clause 52 of Schedule 4 of the Financial Markets Conduct Regulations 2014 (**FMC Regulations**). All legislation referred to in this Document can be viewed at [legislation.govt.nz](http://legislation.govt.nz).

In this Document, 'you' or 'your' means an investor in the **Funds**. 'We', 'us', 'our' or 'the Manager' refers to Simplicity NZ Limited as the **Manager** of the Simplicity Investment Funds Scheme (**Scheme**), and the funds set out in Section 2, 'Funds' below.

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

All bolded terms are defined in the Glossary.

## 2. Funds

You can choose to invest in any of the following investment options (**Funds**):

Fund	Product Disclosure Statement
Simplicity High Growth Investment Fund	Simplicity Investment Funds PDS
Simplicity Growth Investment Fund	Simplicity Investment Funds PDS
Simplicity Balanced Investment Fund	Simplicity Investment Funds PDS
Simplicity Conservative Investment Fund	Simplicity Investment Funds PDS
Simplicity Defensive Investment Fund	Simplicity Investment Funds PDS
Simplicity NZ Share Fund	Simplicity Investment Funds PDS
Simplicity NZ Bond Fund	Simplicity Investment Funds PDS
Simplicity Hedged Global Bond Fund	Simplicity Investment Funds PDS
Simplicity Unhedged Global Share Fund	Simplicity Investment Funds PDS
Simplicity Hedged Global Share Fund	Simplicity Investment Funds PDS
Simplicity Homes and Income Fund	Simplicity Investment Funds PDS

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

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

### 3. Manager

The Manager of the Funds is Simplicity NZ Limited. We are 100% owned by the Simplicity Foundation, a registered charity whose objective is to benefit the people of New Zealand through charitable donations.

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

We hold a licence to act as a managed investment scheme manager under the FMC Act. Evidence of our licence is available at the Financial Markets Authority's (FMA) website by clicking on: <https://www.fma.govt.nz/business/licensed-providers/>.

#### Our functions

As the Manager of the Funds, we:

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

#### Our directors

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

##### *Joy Marslin*

Joy has had an extensive career within financial services and is passionate about helping New Zealanders achieve their financial goals. As we face a growing number of global challenges, Joy is challenged to seek new and innovative ways to support the aspirations of both current and future generations. In addition to her role as Board Chair of Simplicity, Joy has a basket of roles including independent director with Strategi Group, Financial Services Complaints Ltd, NZ Shareholders Association and Director of Impact Enterprise Fund, Simplicity Living Ltd and investment committee member of Metis Ltd. Joy's previous roles include Head of Private Wealth Management for Westpac and Head of Wealth for ANZ New Zealand.

##### *Reuben Halper*

Reuben is responsible for Google's business with New Zealand advertising agencies. Before relocating to New Zealand in late 2015 he spent the previous 6 years with Google UK, first as part of the Zoo, Google's internal creative think tank, then subsequently leading the global Unilever team responsible for working across Unilever's biggest brands. Reuben has worn many hats in his career including strategist, Emmy-award winning TV producer, creative and production team leader as well as product manager. Across roles and industries his work has

been recognised both internally and externally, including a D&AD award for creative work, Emmy awards for work in TV and digital as well as recognition in the form of a patent for breakthrough broadcast technology.

#### *Mel Hewitson*

A professional director, Mel is a board member of Fidelity Life Assurance, Ngā Whāiake Whai Maia, Southern Cross Travel Insurance, NZ Green Investment Finance Solar Investments, Foundation North, Domain Name Commission and Housing Foundation. Mel brings relevant skills and alignment with Simplicity's commitment to investors' interests, developed from her former leadership roles at the Financial Markets Authority and investment management firms with strong fiduciary cultures. She is a Chartered Member of the Institute of Directors, an Accredited Investment Fiduciary, holds Climate Competent Board Designation and has degrees in Business (Masters), Economics and Japanese. Mel was made a Member of the New Zealand Order of Merit for Services to Governance in the 2022 New Year's Honours List.

#### *Anna Tierney*

A Chartered Accountant for twenty years in both the public and private sectors. She has a strong history in specialising in the areas of fraud and risk through her experience as a forensic accountant at the Serious Fraud Office and Ernst & Young. Anna has also held an appointment with the Real Estate Agents Authority (REAA) as an original Member of the Complaints Assessment Committee, and has worked in London for Schroders and Morgan Stanley.

#### *Chris Teeling*

Chris has deep experience and a passion for scaling businesses. He has had an extensive career in technology centred businesses and with international investment banking. His broad background brings a unique perspective and ability to turn complex challenges into well governed and executed plans for boards, leaders and founders. Over the last 10 years Chris has helped build and lead two globally successful companies; GreenButton, a cloud based technology company acquired by Microsoft Corporation and Xero Limited.

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

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

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

## **Our senior managers**

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

## **Investment managers**

New Zealand investments are primarily made by the Manager.

We contract out the investment management of the Funds' international securities to DWS International GmbH (**DWS**). For more details, see: [dws.com](https://www.dws.com).

Hedging of offshore investments to manage foreign exchange risks is performed by DWS who enter into foreign exchange forward contracts with trading banks. No gearing or leverage (buying assets with borrowed funds anticipating that borrowing costs will be less than profits) of the Funds is permitted through hedging instruments.

The Growth Investment Fund and High Growth Investment Fund have benchmark asset allocations (2.5% and 7.5%, respectively) to our private equity portfolio. This portfolio includes investments in funds managed by Icehouse Ventures Limited. Icehouse Ventures Limited is the investment arm of The Icehouse, which was established in 2001 to assist small to medium enterprises grow their businesses. To see the range of permitted investments, please refer to the SIPO on [simplicity.kiwi](https://www.simplicity.kiwi), or on the Disclose register.

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

## Administration manager

Under the **Management Agreement**, we have contracted administration management of the Funds to Apex Investment Administration (NZ) Limited (**Administration Manager**). The Administration Manager provides the following services:

- investor record keeping and registry.
- Unit pricing.
- Fund accounting.
- Valuation services.

## 4. Supervisor and Custodian

Public Trust is the supervisor (**Supervisor**) of the Funds.

### Functions

The Supervisor has the following functions:

- acting on behalf of investors in relation to us, any matter connected to the Trust Deed or the terms of offer of the Units, any contravention or alleged contravention of our obligations as the issuer of the Units and any manager of the Funds, and any contravention or alleged contravention of the FMC Act, FMC Regulations and any other applicable legislation by any other person in connection with the Scheme.
- supervising the performance by us of our functions as Manager of the Scheme and our obligations as issuer of the Units (including compliance with the Trust Deed), and the financial position of us and the Scheme in respect of the Units to ascertain that it is adequate.
- holding the property of the Scheme, or ensuring that property is held, in accordance with the FMC Act, FMC Regulations and any other applicable legislation.

- performing or exercising any other functions, powers, and duties conferred or imposed on it by the FMC Act, the Financial Markets Supervisors Act 2011 (**FMS Act**) or the Trust Deed.

## Custody

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

## Supervisor's Board members

The current Board members of Public Trust can be viewed at:

<https://www.publictrust.co.nz/about-us/meet-public-trust-team/>

The Board members of the Supervisor and their addresses may change from time to time without notice to you. You can contact the Board members of the Supervisor by mail at Private Bag 5902, Wellington 6140 or on 0800 371 471.

## Supervisor's licence

The Supervisor has been granted a licence under section 16(1) of the FMS Act to act as a Supervisor of managed investment schemes.

A copy of the Supervisor's licence, including the conditions of the licence, can be obtained at the FMA's website: <https://www.fma.govt.nz/business/licensed-providers/>.

All conditions and reporting obligations have been duly satisfied by the required dates. If you have any queries about the licence please contact the Supervisor in the first instance.

# 5. Manager and Supervisor's indemnity

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

# 6. Auditors and other advisors

## Auditor

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

## Other advisers

Our solicitors are DLA Piper New Zealand.

# 7. Key terms

The Trust Deed (also called a governing document) governs the Funds. The Trust Deed is available on [simplicity.kiwi](https://simplicity.kiwi) and on the Disclose register.

## Changing the Trust Deed and SIPO

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

## Supervisor's covenants

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

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

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

## Removal and retirement of the Supervisor

The Supervisor may retire at any time by giving us 90 days' notice subject to the appointment of a new Supervisor and the transfer to the new Supervisor of the assets of the Scheme. Where the Supervisor retires, we have the power to appoint a new Supervisor. If we fail to do so, the members of the Scheme may do so by special resolution. Any supervisor must be licensed under the FMS Act.

## Our powers and obligations

In addition to the statutory functions (see 'Our functions', above), we have broad discretion in respect of the management of the Scheme, including managing the Assets of the Scheme,



making investment decisions, repurchasing or causing the redemption of units and fixing dates for valuations and distributions.

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

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

In managing the Scheme, we:

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

## Powers relating to the PIE status of the Scheme

The Scheme is a portfolio investment entity (**PIE**). We have a wide range of discretions to operate the Scheme as a PIE including:

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

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

## Provision of information

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

## Separate funds

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

## Borrowing

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

## Valuation

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

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

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

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

## Lending policies

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

- eligible to make a first home withdrawal from their KiwiSaver account.
- have been a member of Simplicity KiwiSaver Scheme for at least 1 year.
- maximum loan to valuation ratio is generally 80% but can be extended to 90% by the Manager in limited circumstances and subject to conditions.
- debt servicing must represent no more than 35% of after-tax salary (joint if applicable).

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

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

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

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

## **Suspension of withdrawals**

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

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

## **Records and financial statements**

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

## **Registers**

We are required to keep a register of members for each Fund in the form and manner required by the FMC Act (Register). The Register must be kept in New Zealand, and may be kept in electronic form so long as a printout of the Register is available to the Supervisor on request. Each Register shall be available for inspection in accordance with the FMC Act. We are required to arrange an independent audit of the Register annually.

## **Meetings**

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

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

A "special resolution" is a resolution approved by investors holding Units with a combined value of no less than 75% of the value of the Units held by those investors who are entitled to vote

and who vote on the question and includes any resolution relating to a matter that is required by the FMC Act, the FMC Regulations or the Trust Deed to be done by way of special resolution.

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

The Supervisor will nominate a chairperson to chair each meeting.

## **Amendments to the Trust Deed**

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

## **Winding up**

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

## **Indemnities**

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

# **8. More information about market indices**

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

## **Where to find more information**

The Funds' returns are measured against various market indices as set out in the SIPO.

- Bloomberg NZBond Bank Bill Index.
- Bloomberg MSCI Global Aggregate SRI Exclusions Float Adjusted Index (hedged into New Zealand dollars).
- Morningstar New Zealand Index.
- Bloomberg DM ex NZ ESG Screened Index.
- Auckland House Price Index (HPI) as provided by REINZ.

## 9. Fees and expenses

### Buy/Sell spreads

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

### Management fee

We are paid a management fee for acting as Manager of each Fund. The current management fee is disclosed in the PDS. The Trust Deed allows us to change those management fees from time to time and without notice to you. We may, at our discretion, charge an investor or certain classes of investors lower management fees than as currently disclosed in the PDS.

### Changes to fees

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

### Supervisor's fee

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

In addition, the Supervisor is entitled to receive a fee of such amount as is from time to time agreed between us and the Supervisor for convening and attending meetings of members. There is no limit on this fee. The Supervisor is also entitled to be reimbursed for various expenses in accordance with the Trust Deed.

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

### Expenses

We and the Supervisor are entitled to reimbursement for all reasonable costs and expenses incurred by either of us on behalf of the Scheme and each Fund. These include the costs of preparation of this Document and other documents in relation to the offer of the Units in the Funds, professional advisers' fees, taxes/duties and other administration costs. There is no

limit on the amount of reimbursement of expenses to which the Manager and Supervisor are entitled. The payment of these expenses is included in the annual fund charges for which an estimate is provided in the PDS and that will be disclosed in the quarterly fund updates on the register entry on the offer register for the Funds on the Disclose Register website at **[companiesoffice.govt.nz/disclose](https://companiesoffice.govt.nz/disclose)**. As at the time of publishing this document, we intend to absorb all expenses within our management and administration charges.

## 10. Financial statements and auditor's report

Financial statements for the Funds are available on the Disclose Register website: **[companiesoffice.govt.nz/disclose](https://companiesoffice.govt.nz/disclose)**. The Funds' financial statements are audited by a qualified auditor, currently Grant Thornton. The auditor's report on the financial statements will accompany the financial statements uploaded to the scheme register each year.

## 11. Risks

The Scheme has been established to help you save. All investment carries a degree of risk and no level of return is promised or guaranteed. The value of your Units in the Scheme will go up and down, so it is possible that you could receive less from the Scheme than you invest, particularly if you invest for a short period of time and market conditions have been poor. The PDS sets out the material risks to your investment in the Scheme. In addition, the following risks may mean that you receive less than you invest in the Scheme.

### Suspension of redemptions

The Funds allow redemption of Units, subject to certain procedural requirements, including our right under the Trust Deed to delay and/or suspend redemptions. During normal operational circumstances, redemptions can be met out of cash held by the relevant Fund. However, if the value of redemptions significantly outweighs the value of subscriptions, the Fund may not be able to meet withdrawal requests out of cash reserves and will be reliant on selling or redeeming (whichever is relevant) some of the Fund's Assets to enable it to meet the repayment requests. These Fund Assets may not be immediately realisable.

### Valuation risk

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

### Operational risk

The Funds may be exposed to operational risks that result from external events or failure of internal processes, people and systems. These risks include technology risk (including

business systems failure), human error or failure, fraud, non-compliance with legal and regulatory obligations, counter-party performance under outsourcing arrangements, legal risk, data integrity risk, security risk and external events (including pandemics).

## **Risk of loss of PIE status**

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

## **Wrong PIR risk**

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

## **Market risk**

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

## **Liquidity risk**

Liquidity risk is the inability to effectively satisfy redemption requests (turn an investment into cash) from investors in a timely, orderly, and cost-effective manner. There can often be increased liquidity risks which may not be captured within the risk indicator. There are three main reasons why a liquidity event could occur:

- A manager-specific event (e.g. insolvency, regulatory sanctions, or scandal/rumour) may trigger a run on one or more of the Manager's Funds, resulting in redemption requests being received that exceed the value of cash and liquid securities held by the subject Fund/s.
- A broad market event (e.g., a market correction, crash or other crisis of confidence) that results in a run on all or a class of investment funds. In this scenario, investment managers across the market are likely to simultaneously receive redemption requests that collectively exceed the amount of liquidity commonly held (in impacted funds).
- A market failure where normal execution (trading) and/or settlement activity is impaired or ceases, resulting in a reduction in liquidity provided by that market.

There may be increased liquidity risk to the below Funds because they hold more illiquid assets than our other Funds.

- The Defensive Investment Fund has a benchmark allocation to illiquid assets of 20%. This includes 15% (within a range of 0% to 20%) to the first home mortgage portfolio and 5% (within a range of 0% to 7.5%) to the unlisted property portfolio.

- The High Growth Fund has a benchmark allocation to illiquid assets of 17.5%. This includes 10% (within a range of 0% to 15%) to the unlisted property portfolio and 7.5% (within a range of 0% to 10%) to the private equity portfolio.
- The Homes and Income Investment Fund has a benchmark allocation to illiquid assets of 60%. This includes 25% (range 0% to 50%) to the unlisted property portfolio, 25% (range of 0% to 50%) to loans secured by first mortgages over residential property and 10% (range of 0% to 15%) to community housing bonds.

For more information on the benchmark asset allocations for the Funds, please refer to the SIPO.

## Interest rate risk

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

## Default risk

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

## Currency risk

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

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

## Property development risk

Some Funds may have an exposure to residential property development (see the SIPO for details). There are risks that increases in construction costs or construction delays, changes in property valuations and residential rental markets could have a negative impact on returns.

## Product risk

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



# 12. Taxation

## Taxation

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

## PIE

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

## PIR

The rules relating to the taxation of investment income enable investment funds that become PIEs to calculate their tax using PIRs selected by members, which can be 28%, 17.5% or 10.5% subject to satisfying various conditions. In order for the Funds to pay tax on your attributed income at the appropriate rate, you need to ensure that you have supplied the correct PIR and Inland Revenue Department number at all times.

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

The following PIRs apply:

- **10.5%** for members who are: New Zealand resident individuals who have given us their Inland Revenue Department number and who derived in either of the last two income years preceding the current tax year \$14,000 or less in taxable income (excluding PIE income) and \$48,000 or less in taxable income and PIE income combined.
- **17.5%** for members who are: New Zealand resident individuals who do not qualify for the 10.5% PIR but who have provided their Inland Revenue Department number to us and who derived in either of the last two income years preceding the current tax year \$48,000 or less of taxable income (excluding PIE income) and \$70,000 or less in taxable income and PIE income combined.
- **28%** for New Zealand resident individuals who are not eligible for either the 10.5% PIR or the 17.5%.
- **0%** for the following entities (if resident in New Zealand): charities, PIEs, companies (including deemed companies such as unit trusts), proxies, and superannuation funds and trusts that have not elected to have a higher PIR.

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

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

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

In these circumstances you will be liable to include your attributed income in a tax return and to pay tax on that income at your relevant marginal tax rate (with a credit allowed for tax paid by the Fund on that income). You may also be liable for any penalties or interest which may apply. If you advise a PIR that is higher than your applicable rate, any tax over-withheld will be used to reduce any income tax liability you may have for the tax year and any remaining amount will be refunded to you. If you do not notify us of your PIR, then the default rate of 28% will apply. The Commissioner of IRD can require us to disregard the PIR notified to us by you and apply a PIR notified by the Commissioner.

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

## Impact of PIE taxation for certain taxpayers

In some circumstances, your personal marginal tax rate could be lower than your PIR. In this event investing through a PIE may not be appropriate. Given that there are a number of circumstances where you may pay more tax in a PIE, rather than other forms of investment, it is important to consult your professional tax advisor to determine whether a PIE is best for you.

## Hedging taxation

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

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

The Funds may be offered through certain administration and custodial services. These include "wrap platforms". When you invest through an administration and custodial service you do not hold Units in the Funds directly. Instead, your Units are held in the name of a custodial entity for the wrap platform on your behalf. This means many of the legal rights attached to those Units are held by that custodial entity rather than by you, and so your ability to exercise those rights is subject to the terms and conditions agreed between you and the provider of the service. You are encouraged to familiarise yourself with those terms and conditions as set out in service provider's marketing and legal documentation.

## 14. No guarantee

None of the Manager, the Supervisor, any investor of Simplicity or any other person guarantees the return of capital and/or the repayment of Units to you.

## 15. Key documents in understanding the scheme and how it operates

These include:

- Product Disclosure Statement\* (PDS).
- Statement of Investment Policies and Objectives\* (SIPO).
- Trust Deed^.

\*The PDS and SIPO are available from us at: [simplicity.kiwi](https://simplicity.kiwi).

^The Trust Deed is available on the Disclose register.

## 16. Glossary

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

"ASX" means the Australian Stock Exchange.

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

"Custodian" means Public Trust through the subsidiary, Simplicity Nominees Limited.

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

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

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

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

“Funds” means the Investment Funds set out in the table on page 3.

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

“Management Agreement” means the agreement between the Manager and Apex Investment Administration (NZ) Limited dated 21 April 2016 pursuant to which the Manager effectively outsources administration and investment management functions to Apex Investment Administration (NZ) Limited and Apex Investment Administration (NZ) Limited provides resources (including people, operational and financial resource) to the Manager as required to perform those functions.

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

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

“NZX” means NZX Limited.

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

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

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

“Scheme” means the Simplicity Investment Funds Scheme, a registered scheme under the FMC Act.

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

“Supervisor” means Public Trust, the supervisor of the Scheme and the Manager.

“Tax Act” means the Income Tax Act 2007.

“Trust Deed” means the trust deed entered into between the Supervisor and the Manager dated 10 June 2016.

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

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