Westpac Active Series

Other Material Information

29 May 2020

BT Funds Management

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Background

This is an important document in relation to your investment in the Westpac Active Series. It should be read together with the Product Disclosure Statement (**PDS**), the Statement of Investment Policy and Objectives (**SIPO**) and any documents held on the register at **disclose-register.companiesoffice.govt.nz** (**Disclose**).

In this document:

- the words "you" and "your" refer to you and to other persons who apply for units in funds that make up the Westpac Active Series or who are allotted units in the funds.
- the words "we", "us", and "our" refer to BT Funds Management (NZ) Limited (**BTNZ**), which is the Manager of the Westpac Active Series.
- when we use the word "current" or "currently", in relation to legislation, policy, activity or a practice we mean as at the date of this document. Any legislation, policy, activity or practice may be reviewed or changed without us notifying you.

This document has been prepared pursuant to section 57(1)(b)(ii) of the Financial Markets Conduct Act 2013 (**FMCA**) for the purpose of meeting certain of the disclosure requirements applying to the Westpac Active Series under clause 52 of Schedule 4 to the Financial Markets Conduct Regulations 2014 (**FMCR**).

1. Nature of the Scheme

Introducing the Westpac Active Series

The Westpac Active Series (**Scheme**) is a managed investment scheme for the purposes of the FMCA. In the Westpac Active Series there are four managed funds (each a **fund**) for you to invest in. The funds invest in a range of asset classes as described in the PDS and the SIPO. The funds are:

- Westpac Active Conservative Trust (**Conservative Trust**)
- Westpac Active Moderate Trust (**Moderate Trust**)
- Westpac Active Balanced Trust (**Balanced Trust**)
- Westpac Active Growth Trust (**Growth Trust**)

The Westpac Active Income Strategies Trust is also a fund in the Westpac Active Series. This fund is closed to further investments. Further information about the Westpac Active Income Strategies Trust is available from us via the contact details in the PDS.

The trust deed governing the funds and each fund's establishment deed is available on Disclose.

How do the funds work?

The money you invest buys units in the fund(s) you choose. Each unit represents a share of a fund and has a unit price so that you know what your share of that fund is worth. Changes in the value of the assets of a fund will be reflected in the value of the units. Generally speaking, if the assets of the fund go up in value, your units will be worth more and if they go down in value, your units will be worth less. This means the return on your investment is reflected in any increase or decrease in unit price.

Each unit in a fund has the same value as every other unit in that fund and represents an equal interest in the assets of the fund.

The funds may issue any number of units that we choose. There is no maximum number of units that may be issued by a fund.

The units you hold in a fund do not give you any interest in any particular asset of that fund. This means that you cannot, for example, request or require us, or The New Zealand Guardian Trust Company Limited as the supervisor of the Scheme (**Supervisor**), to transfer to you any asset of a fund. Generally speaking, you can only access the value of your investment in a fund by withdrawing the units that you hold in that fund.

Asset valuation

We value the different assets held by a fund to determine the unit price for that fund. Asset valuations for the funds are typically performed each business day (being a day other than a Saturday or a Sunday or a public holiday in Auckland and Wellington). We apply market standard valuation methods for each asset type and in accordance with the trust deed. Our valuation policy permits the use of estimates in asset valuations for example, where assets are illiquid or infrequently traded.

For any new assets for which a market standard valuation approach is not applicable or appropriate, the valuation method to be used is first discussed with the Supervisor and our appointed unit pricing administration manager before being confirmed.

Unit price calculation

Unit prices are calculated by reference to the net asset value of the relevant fund at the time divided by the number of units that have been issued from that fund. Unit prices are rounded to four decimal places. Some additional information on the calculation of unit prices is set out in the trust deed for the Scheme. We generally calculate unit prices each business day using the asset values determined for that day (as described above).

Any application for units, withdrawal request or switching request accepted before 4pm on a business day (or such later time as we may accept) will, in normal circumstances, receive the unit price applicable for that business day. You can obtain the unit price applicable to any day by contacting us via the contact details in the PDS.

Our current policy is to apply unit prices using the forward pricing method. The use of forward pricing is considered to be good market practice as it removes the arbitrage opportunities associated with the alternative (historical pricing) method. Applications or redemptions are generally processed using the unit price applicable to the business day that the application or withdrawal request has been received.

As specified by the trust deed, the Manager and the Supervisor have agreed a compensation policy that will apply if a material unit pricing error or material non-compliance with a unit pricing method requires correction. Under the current policy applied by the Manager and the Supervisor (unless the Manager and the Supervisor agree otherwise) a material unit pricing error is generally an error that equals or exceeds 0.30% of the unit price that would have applied had the error not occurred. Where agreed with the Supervisor, the Manager may choose not to pay compensation to you for an amount less than $20.

Buy/sell prices

To make allowance for the cost (or part of the cost) of acquiring or selling assets for a fund (transaction costs), under the trust deed we can adjust the unit price upwards (by establishing a buy price) or downwards (by establishing a sell price). We can determine this allowance, and whether or when it is applied. These allowances (if any) are retained by the funds and not by us. We currently do not apply buy/sell prices.

Making investments

This offer is only open to you if you are in New Zealand.

The process for investing in the Westpac Active Series is set out in the PDS. Application moneys are paid into a non-interest bearing bank account upon receipt and applied to the relevant funds in accordance with the trust deed.

We have the right to decline in whole, or in part, any application or postpone the processing of the application pending receipt of cleared funds.

Withdrawals

We generally action all withdrawals by redeeming units. We can also buy your units from you in certain circumstances. This is called a manager repurchase. We will work out your withdrawal amount by multiplying the number of units to be withdrawn from the fund by the unit price on the date the fully completed and signed withdrawal request has been received by us. Where the fully completed and signed withdrawal request is received on a day that is not a business day the next business day's unit price shall apply.

If we accept a withdrawal request, the withdrawal amount will generally be paid to you within ten business days from the date the fully completed and signed withdrawal request is received by us, or if the fully completed and signed withdrawal request is not received on a business day, within ten business days from the next business day.

Under the trust deed, the withdrawal amount must be paid to you within 30 business days from the date the withdrawal request is received by us (subject to the restrictions below).

Restrictions on withdrawals

Withdrawals from a fund may be suspended by us under the trust deed if we determine in good faith that it is desirable for the protection of the fund or in the interests of Unitholders. The maximum suspension period is currently 30 days or such further unlimited period as determined by us with the consent of the Supervisor. We will deem withdrawal requests received during that suspension period to have been received immediately following the expiry of the suspension period.

Insolvency/wind-up

We may decide to wind up or close a fund at any time. If we or a fund are liquidated or wound up, any creditors' claims will rank ahead of your claims, though your claims will rank equally with other investors in the relevant fund. If BTNZ or a fund become insolvent, you won't be liable to pay money to anyone.

Transferring units

You may apply to transfer your units to another person by completing and returning a transfer form. The process for actioning a transfer together with the circumstances in which we may refuse to action a transfer are set out in the trust deed.

Please note that we can't make a transfer:

- If the other person is not allowed to be an investor under the trust deed; or
- If registration of the transfer would cause a fund to breach the Portfolio Investment Entity (**PIE**) eligibility requirements.

Closure of your investment

In some circumstances we may need to withdraw some or all your units or close your investment in a fund. This may occur where we consider doing so is in the interests of investors in the fund generally, where necessary to preserve a fund's eligibility for PIE status, or where your withdrawal request would leave you with less than the minimum holding.

Changes to the Scheme

Our ability to make changes

With the consent of the Supervisor, we can change any fees without notice. If we make a change, you (or a fund as the case may be) will need to pay the new fees. We may also alter the minimum investment and withdrawal amounts, or any notice periods, and introduce buy/sell prices. We can also close or wind up a fund.

Making changes to the trust deed and SIPO

We and the Supervisor may amend the provisions of the trust deed (including any establishment deed). Any such changes can be made under certain circumstances outlined in the trust deed. The Supervisor must be satisfied, and must certify, that the amendment does not have a material adverse effect on investors (unless affected investors approve the amendment by special resolution).

We may change the SIPO for the Scheme, including benchmark asset allocations and ranges, after consulting the Supervisor and in accordance with the trust deed.

Notification of any material changes to the SIPO will be advised in the annual report for the Westpac Active Series and in accordance with the trust deed or law.

Borrowing powers

At our direction, the Supervisor may borrow or make other funding arrangements on behalf of each fund, provided that the total of such liabilities does not exceed 50% of the net fund value of the relevant fund at the date of making such arrangements.

2. The Manager and its directors

The Manager of the Scheme is BTNZ.

Details of the directors of BTNZ are available at **companiesoffice.govt.nz/companies**

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

The ultimate holding company of BTNZ is Westpac Banking Corporation, ABN 33 007 457 141 (**Westpac Banking Corporation**), an Australian incorporated company. Westpac Banking Corporation is listed on the ASX. BTNZ has been a member of the Westpac Banking Corporation group of companies (**Westpac Group**) since 31 October 2002.

Investments made in the funds do not represent bank deposits or other liabilities of Westpac Banking Corporation, Westpac New Zealand Limited (**Westpac NZ**) or other members of the Westpac Group. They are subject to investment and other risks, including possible delays in payment of withdrawal amounts in some circumstances, and loss of investment value, including principal invested.

Key roles within BTNZ

Details of the roles key to the management of BTNZ can be found at **westpac.co.nz** (by searching for a document titled “Key Roles within BT Funds Management”). The roles and the people holding those roles may change from time to time without notice to you.

3. Other parties

Administration managers

Trustees Executors Limited and MMC Limited have been appointed to perform certain administrative functions for the funds. The administration managers are regularly monitored and reviewed.

Trustees Executors Limited

Trustees Executors Limited provides registry administration services which include investor maintenance and servicing, transaction processing, making/receiving payments, reconciliations, investor correspondence and reporting.

MMC Limited

MMC Limited provides fund administration services including calculation of performance, reconciliation of security positions and bank accounts, trade matching and settlement, portfolio valuations, unit pricing and preparation of financial statements.

We may change the administration managers without notice to you. The identity and number of administration managers may vary from time to time.

Specialist funds and underlying investment managers

Investments may be held directly or via investment in other funds that we select (**Specialist Funds**). The underlying investment managers we currently use through Specialist Funds are shown in the document titled “Other Material Information – Underlying Investment Managers” which is available on Disclose.

Changes to underlying investment managers

Underlying investment managers are regularly monitored and reviewed. Managers may be added or removed without us notifying you. This means the identity and number of underlying investment managers for the funds may vary from time to time.

Licensed Supervisor

The Supervisor, The New Zealand Guardian Trust Company Limited, has been granted a licence under the Financial Markets Supervisors Act 2011 to act as a supervisor in respect of debt securities and certain registered schemes.

Further information on the Supervisor's licence is available at the Financial Market Authority's website **fma.govt.nz**

Registrar and Custodian

BTNZ is the Registrar of the funds and an electronic register for the funds is kept at BTNZ's head office in Auckland.

The custodian is The New Zealand Guardian Trust Company Limited, acting through its nominee company, Guardian Nominees Limited. Assets of the funds may be registered in the name of Guardian Nominees Limited.

Supervisor and Manager indemnity

The Supervisor and the Manager are entitled to be indemnified out of the relevant fund from and against any expense and liability that may be incurred in prosecuting or defending any action or suit on behalf of or in connection with the relevant fund, to the fullest extent permitted by law, and may recover any loss suffered by Unitholders in respect of their units unless the Supervisor or the Manager has failed to comply with the requirements of the FMCA (as applicable) in respect of the relevant fund.

You indemnify the Supervisor and us for tax paid on income attributed to you by a fund. This indemnity only applies if your interest in a fund is not sufficient to meet any tax liability on income attributed to you.

Further information in relation to the Supervisor's and our responsibilities and indemnities is set out in the trust deed.

Management Agreement

A Management Agreement between us and the Supervisor dated 2 May 2016 (as amended from time to time) sets out the arrangements between us and the Supervisor in relation to certain operational matters relating to the funds. The Management Agreement specifies the reporting and information to be provided by us to the Supervisor and the requirements for operating the funds' bank accounts and record keeping.

Nothing in the Management Agreement limits or alters the powers of the Supervisor or our duties under the trust deed and applicable law.

4. Further information on fees

Management fees and expenses

We are responsible for the management of the funds and their investments and we are paid a management fee, which is limited by the trust deed.

We are entitled to be reimbursed from the funds for expenses (inclusive of GST, if applicable), including expenses relating to services provided by an administration manager. However, we currently cover from our management fee all the expenses that are incurred by us on a normal day-to-day basis in relation to the operation and administration of the funds. If extraordinary or unusual expenses are incurred, these may be charged to the funds.

Under the trust deed, the maximum aggregate annual administration fee and management fee we may receive from a fund is 2.5% per annum of the gross fund value of that fund.

Supervisor's fee and expenses

The Supervisor charges an annual fee in respect of its services performed for each fund. Under the trust deed, the maximum level of this fee is 0.50% per annum of the gross fund value of each fund.

Currently, we pay the annual fee to the Supervisor from our management fee. If we do not pay the annual fee, the Supervisor may charge that fee to the relevant fund.

The Supervisor is entitled to be reimbursed for expenses incurred in relation to the funds.

Underlying fund fees

The funds that BTNZ chooses to invest in may charge management fees. Under our current policy, BTNZ pays any management fees charged by the Specialist Funds ourselves (so these fees will not affect the amount of your returns).

Specialist Funds and any funds they are exposed to may however charge other fees, including performance fees, and incur expenses which will affect their value and consequently have an impact on the returns from the funds and therefore the value of your investment.

Included in the annual fund charges disclosed in the PDS are estimates of the performance fees (if any) that may be charged by the investment managers of certain Specialist Funds when specific performance targets are met.

A performance fee (if any) will only be charged by an investment manager of a Specialist Fund when its investment return outperforms either its benchmark or a specific performance hurdle return. A performance hurdle return is typically a specified percentage above a benchmark index. Usually, any prior underperformance must be made good before the investment manager qualifies for a performance fee. Performance fees (if any) for the relevant investment managers of the Specialist Funds typically range from 0-20% of outperformance over the benchmark or performance hurdle. There is no guarantee that a performance fee will be paid, and the actual performance fees charged will vary from the estimates used in the annual fund charges estimated in the PDS.

Basis for estimates of fund charges in PDS

The annual fund charges shown in the PDS include the actual management fee for each fund and estimates of the expenses for each fund, as well as estimates (weighted according to each fund's benchmark asset allocations) of the other fees and expenses expected to be charged by underlying funds (including any performance fees). Those estimates, made as at the date of the PDS, are based on:

- historic fees and expenses data for the underlying funds, or
- where no historic data is available, the expected fees and expense levels for similar underlying funds, and
- in the case of performance fees, the performance fee that would apply if the performance threshold of the relevant underlying fund was met.

When we make estimates using historic data, we assume that ongoing charges will be at levels equivalent to the charges contained in the historic data.

Actual fund charges will vary from these estimates including where such charges depend on the performance of the underlying funds and their investment managers.

Administration fee

We do not currently charge an annual administration fee, but we may do so subject to any limits imposed by the trust deed.

Termination fee

If a fund is wound up, the Supervisor may deduct a termination fee from the assets of the fund. The maximum termination fee is 0.2% of the gross fund value of the relevant fund at the date of termination. The Supervisor does not currently intend to charge a termination fee.

Variation to fees

We may agree with the Supervisor to vary the fees at any time (including to introduce new fees). Our ability to do so is subject to any limits imposed by the trust deed including any fund establishment deed.

GST

Goods and Services Tax (**GST**) is not included in any of the fees stated in the PDS. GST will be added to any fees where applicable.

5. Westpac and its related parties – disclosure of interests

We may use related parties to provide services in respect of the funds as summarised below.

Westpac NZ and Westpac Banking Corporation are related parties of BTNZ. Westpac NZ and Westpac Banking Corporation provide banking services to the funds and may receive commercial benefits from this arrangement. Westpac NZ also receives a fee from BTNZ for providing support services and distributing the funds.

We or our directors (or associated persons of us) may invest in the funds.

The funds may invest in managed funds that we, or one of our related companies, manage (**Related Funds**). When we have chosen to invest in a Related Fund, our current policy is that the Related Fund will not charge:

(a) application fees (if any); or

(b) management fees (or that if management fees are charged, they are rebated in full to the investing fund).

More information on the Specialist Funds (including any Related Fund) and underlying investment managers can be found in the document titled "Other Material Information – Underlying Investment Managers" which is available on Disclose.

If the Supervisor (or a related company of the Supervisor) is also the supervisor of a Related Fund, then it will either not charge any fee for that Related Fund to the investing fund or refund any fee so charged.

The Related Funds may also charge other fees and incur expenses. Any such fees and expenses paid will affect the value of the Related Funds and consequently affect returns.

Conflicts of interest policy

Because we are a member of the Westpac Group and have directors who are senior executives with the Westpac Group, an inherent conflict of interest arises.

How conflict would/could materially influence funds

- We may have an incentive to influence investment managers to invest in securities (including investment funds) issued by us or others within the Westpac Group ahead of other investments.
- We or a Westpac Group entity may have an incentive to invest in investment funds managed by us or that entity (or otherwise within the Westpac Group) ahead of investment funds managed by third party investment managers.
- We may have an incentive to utilise other members of the Westpac Group for the supply of services and as counterparties for banking products and derivatives trades, ahead of third parties.

Steps taken to manage conflicts of interest

The FMCA imposes statutory controls on conflicts of interest:

- We must, in exercising any power, or performing any duties, exercise the care, diligence and skill that a prudent person engaged in that profession would exercise in those circumstances; act honestly in acting as manager; act in the best interests of investors; and treat investors equitably.
- Where we contract out our functions to external parties, we must seek to ensure the persons to whom we contract those functions perform them to the above standards as if we were performing them ourselves. We must also monitor the performance of those functions.
- Where a related party transaction provides a related party benefit as prescribed by the FMCA, we must notify the Supervisor and provide any certifications required by the FMCA.

Westpac NZ Conflicts of Interest Policy and Conflicts of Interest Guidelines

We have built relevant statutory controls into our internal compliance processes and procedures. As part of the Westpac Group, we also comply with the Westpac NZ Conflicts of Interest Policy (**Policy**) and the Westpac NZ Conflicts of Interest Guidelines (**Guidelines**). The Westpac Group is committed to identifying, declaring and managing conflicts of interest.

The Policy sets out what a conflict of interest is and provides a framework for how to identify, declare and manage it.

The Guidelines provide that the process for managing a conflict of interest is to identify, declare, manage and monitor.

The conflict of interest is recorded in the relevant business unit's conflicts of interest register. Conflicts of interest are a standing item on the agenda for the BTNZ Investment Committee (or any similar committee that may replace it) operated by BTNZ management. Further information on the BTNZ Investment Committee can be found in the SIPO on Disclose.

Westpac NZ has a separate policy and guidelines covering gifts and hospitality.

6. Risks

Main risks of investing: The main risk is **investment risk** – the risk of negative or lower than expected returns on your investment. All investments have investment risk. If market conditions are volatile or you invest for a short time, it is reasonably foreseeable that your overall returns from a fund or funds may be less than you expect or may be negative for a period of time. This may also be the case if you withdraw your investment, or switch between funds during periods of higher volatility. If returns are less than charges paid and you withdraw your money at this time, it is possible that you could receive back less money than you put in.

We have identified the following principal risks that may produce this result and below we also describe how we seek to manage these risks (where possible). It is important to note that risks can only be managed to a certain extent.

- **asset allocation risk**– generally speaking, growth assets (such as equities) are more volatile than income assets (such as fixed interest) and are more likely to give rise to negative returns in the short term. Each asset class in which the funds invest also has specific risks which are set out below.

- **market risk** - many factors affect market performance generally and, therefore, the value of assets in which the funds invest. These can include the state of the economy (both domestic and overseas); the performance of individual entities; tax laws and other regulatory conditions; market sentiment; political events; inflation; movements in interest rates and currency and broader events like changes in technology, pandemics or environmental events. We seek to reduce market risk to some extent by diversifying across asset classes, investment sectors, countries, investment managers and/or investment styles.

- **currency risk** - if a fund invests in international markets, currency movements may have an adverse effect on the domestic value of its international investments. The extent to which we may manage currency exposures for each asset class is set out in the SIPO which can be found on Disclose.

- **investment manager risk** – investment decisions are made by professional investment managers and will affect returns. For investment purposes, we select any Specialist Funds in which the Scheme invests, and their investment managers, according to a range of criteria that meet our investment philosophy and SIPO. The outcomes of investment decisions cannot be predicted with certainty and results will vary. To seek to manage this risk, we regularly monitor the Specialist Funds in which the Scheme is invested and their investment managers.

- **credit risk** - if a fund invests in fixed interest assets, money market securities, mortgages or derivatives, there is always a risk a borrower or other counterparty's creditworthiness may decline or they may default on required payments (reducing returns or meaning that not all of the amount invested is recovered). Where appropriate, the investment strategy seeks to incorporate an assessment of creditworthiness and appropriate diversification to reduce credit risk.

- **derivatives risk -** derivatives are financial contracts whose value depends on (or 'derives' from) the value of underlying assets such as equities, fixed interest, commodities, currency, or cash. They provide exposure to an underlying asset without the need to buy or sell that asset. They may be used by the funds as an alternative to investing in a physical asset or as a risk management tool. Derivatives may not perform in line with expectations, resulting in unexpected gains or losses and increased volatility. To manage this risk, we operate within guidelines concerning the use of derivatives in the funds. For more details, see the SIPO on Disclose. The Specialist Funds in which the funds invest may use derivatives more extensively than the funds themselves. Although the use of derivatives may create leverage in the funds, it is our policy not to invest directly in derivatives to gear the funds (that is, to obtain greater exposure to markets than the net asset value of a fund). If for any reason (including market movements or cash flows) a fund becomes geared through its direct investments, we will realign the fund as soon as practicable to remove any gearing.

- **liquidity risk** – a fund may be limited in its ability to meet your withdrawal or switch request if it cannot sell or accurately value assets and may suspend or restrict withdrawals or switches in certain circumstances. This may occur because some assets are less liquid than others, which means it's harder to sell the assets within a timely period or on a "for value" basis. This may also impact on the price of the asset. In some cases, assets may not be so easily converted into cash for various reasons such as a lack of demand for the asset, disruptions in the market or large withdrawals. This risk may increase where a fund invests through Specialist Funds, which may suspend or restrict withdrawals or otherwise become illiquid. We seek to manage liquidity risk by investing primarily in liquid markets and securities. We monitor each fund's liquidity levels in order to meet any liabilities and withdrawals during normal market conditions.

- **concentration risk** - a fund's investments may be concentrated in particular assets, types of assets, investment vehicles, geographical areas or industries. In that case the poor performance of a single investment or group of investments can significantly impact your returns and increase volatility. Concentration risk can also arise where a fund's investments are concentrated in other managed funds, which may potentially give rise to an increased liquidity risk (as discussed above). The funds and Specialist Funds may adopt concentration limits to manage this risk.

Additional risks which may be relevant at different times include:

- **regulation risk –** any change in tax or other applicable legislation or regulation could impact on the funds' returns.
- **product risk –** changes may be made to the funds from time to time including changing a fund's aim, strategy, benchmark asset allocation or ranges, underlying investment managers or administration managers, adding to, closing or winding up the funds, or changing the fees and charges or minimum amounts. Any material changes will be made after notifying the Supervisor.
- **contractor risk** - a third party may fail to properly provide services to us in relation to the funds. We have selected reputable third parties to provide services to the funds. All third parties are required to meet agreed service levels and are subject to ongoing monitoring and review by us.
- **operational risk** - risks may arise from a failure of processes and procedures, fraud, litigation, disruption to business by industrial disputes, system failures, pandemics, natural disasters and other unforeseen external events which might affect our business or a fund and its assets. We seek to manage this risk with a risk management framework that includes core principles as well as policies and processes for measuring and monitoring risk. In addition, we and our administration managers have regularly tested business continuity plans in place to address certain types of business disruption.
- **tax related risk** - if a fund fails to satisfy the PIE tax eligibility criteria as set out in the Income Tax Act 2007, and that failure is not remedied within the period permitted under that Act, the fund may lose its PIE status. In that case, the fund will be taxed at 28% on its taxable income and any distributions and redemptions may become taxable to you. We have implemented processes to monitor ongoing PIE eligibility compliance for the funds, and have a number of powers available to us to proactively manage this risk. Additionally, if you notify us of a Prescribed Investor Rate (**PIR**) which is lower than the correct PIR, or if you fail to advise us when your PIR increases, your investment income will still be taxable at your correct PIR and you will still need to pay any tax shortfall directly to Inland Revenue.

Each asset class in which a fund invests also has specific risks. The specific risks for each asset class most likely to affect the value of your investment in a fund are:

Income assets	
Cash & cash equivalents	*Specific risk: market risk and credit risk* The value of a fund's cash assets may not keep pace with inflation (market risk). This could mean that even though your savings are steadily growing, your money may not have the same buying power as you would expect in 'today's money'. The value of cash assets can also be impacted by the ability of an issuer to pay interest or repay a loan or an issuer's creditworthiness can decline (credit risk).

Fixed interest	*Specific risks: market risk and credit risk* The value of a fund's fixed interest assets may not keep pace with inflation (market risk) which could mean that your money may not have the same buying power as you would expect in 'today's money'. The value of fixed interest assets will be affected by changes to interest rates (market risk) and the ability of a borrower to repay a loan or pay interest or the ability of a counterparty to meet payments. An issuer's creditworthiness can also decline (credit risk). Fixed interest may involve extensive use of derivatives. The potential gains and losses from derivatives can be substantial and can increase the volatility of a fund's returns. In the case of international fixed interest there is also the market risk of currency movements impacting on returns.
Growth assets	
Equities	*Specific risk: market risk* The value of a fund's equity assets will be affected by factors such as the performance of individual companies, market sentiment and the economic performance of the country or sector. In the case of international equities there is also the risk of currency movements impacting on returns.
Listed property	*Specific risk: market risk* The value of a fund's property assets will be affected by factors such as the demand for property generally, demand for the sector and location, the quality of specific properties, the performance of individual property securities, the general economy, market sentiment and movements in interest rates.
Other **(alternative investments)**	*Specific risks: market risk, liquidity risk and derivatives risk* Alternative investments may be more complex and less liquid than traditional assets, particularly in times of significant market volatility. They can also involve more extensive use of derivatives. The potential gains and losses from derivatives can be substantial and can increase the volatility of a fund's returns.

7. Taxation

Each fund is a multi-rate PIE for tax purposes.

This means that the taxable income of a fund will be attributed to Unitholders in proportion to the units held in that fund and that any taxable income attributed to you will be taxed within that fund at the most recent PIR that you (or the Inland Revenue) have notified to us or the default rate (currently 28%) if no PIR has been notified. Information on current PIRs and how to determine your PIR can be found at **ird.govt.nz/pir**

We will work out the PIE tax (after offsetting any applicable tax credits) that is attributable to you and then cancel units held by you equal in value to that amount. Similarly, if you are due a refundable PIE tax credit, we will issue additional units equal in value to the amount of the refund. We'll usually make these adjustments for PIE tax after the end of the relevant fund's income year. However, if you withdraw, switch, or transfer units during the year, then we'll make tax adjustments at that time. A fund may also elect to deduct PIE tax from any distributions made to you (although the funds do not currently make regular distributions).

You can find more information about PIEs on the Inland Revenue website **ird.govt.nz** (search for 'PIE for investors'). We and the Supervisor do not take any responsibility for your taxation liabilities. You should seek your own independent professional advice as to your particular tax position.

A fund must comply with certain requirements to maintain its PIE status. We have powers under the trust deed to ensure those requirements are met. For example, while a fund is a PIE you may be restricted from holding more than 20% of the units of a fund. We have the power to restrict your purchase of units, or compulsorily withdraw some or all of your units, in a fund if the number of your units breaches, or will breach, that 20% limit and threatens that fund's eligibility for PIE status.

Where units are held through an investor-directed portfolio service or nominee or custodial service that is a proxy for an investor in a PIE (**PIE Investor Proxy**), the PIE Investor Proxy will be responsible for the payment of tax, and the attribution of income, losses, tax credits and refunds for tax purposes, in respect of the units. Neither we nor the Supervisor will be liable for the attribution of income, losses or refunds or the payment of tax in respect of units held through PIE Investor Proxies.

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