

**NZFUNDS**

NZ Funds

KiwiSaver Scheme

Other material information

21 OCTOBER 2020

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## 1. BACKGROUND

This document tells you more about the NZ Funds KiwiSaver Scheme (Scheme). It should be read together with the Product Disclosure Statement (PDS), Statement of Investment Policy and Objectives (SIPO) and any other documents on the offer and scheme registers at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz).

In this document, 'you', 'your' or 'Member' means a person that invests in the Scheme; and 'NZ Funds', 'we', 'us', 'our' or 'the Manager' means New Zealand Funds Management Limited. When we use the word 'current' or 'currently' about a law, policy or practice we mean at the date of this document.

The information in this document may change. Please check the offer register at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz) for any updates.

## 2. NZ FUNDS KIWISAVER SCHEME

The NZ Funds KiwiSaver Scheme is registered as a KiwiSaver scheme under the Financial Markets Conduct Act 2013 (FMC Act). It is established and managed under the rules set out in its trust deed, also called the governing document (Trust Deed). You can get a copy of the Trust Deed from the scheme register at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz).

The Scheme offers four investment options: three funds (Income Strategy, Inflation Strategy and Growth Strategy) and a lifecycle investment option (LifeCycle). LifeCycle automatically allocates your investment across the three Strategies each year, based on your age. More information on LifeCycle and each Strategy is included in the PDS.

LifeCycle is the default investment option. This means that your investment will automatically be allocated according to LifeCycle, unless you choose SelfSelect. Under SelfSelect, you can choose which Strategy or Strategies your contributions will be invested in and how much you would like to invest in each Strategy.

## 3. THE MANAGER

### ABOUT NZ FUNDS

NZ Funds is the manager of the Scheme. We are licensed by the Financial Markets Authority (FMA) to be a manager of registered managed investment schemes under the FMC Act.

NZ Funds is wholly owned by Investment Group Holdings Limited (IGHL). IGHL is owned by interests associated with its directors and by the NZ Funds Executive Trustee Company Limited as trustee of the IGHL Trust. The beneficiaries of the IGHL Trust are mainly senior management of NZ Funds.

### OUR DIRECTORS

**Gerald Noel Siddall** (LLB) is a non-executive director and Chairman of NZ Funds. Gerald has more than 35 years' experience in the financial services industry in New Zealand and overseas. He co-founded NZ Funds in 1988 and was responsible for building and leading NZ Funds until 2009. He was previously a director of NZ Funds until March 2010. He was reappointed as a director of NZ Funds on 21 March 2016. Gerald is not an employee of NZ Funds and he is not an independent director as he has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

**Gregory Bernard Horton** (LLB (Hons), BCom) is an independent director of NZ Funds. Gregory was appointed a director of NZ Funds in May 2013. Gregory is special counsel at Harnos Horton Lusk Limited, a law firm based in Auckland. He has practised law both in New Zealand and overseas. Gregory has an indirect ownership interest in NZ Funds through the IGHL Trust.

**Michael John Lang** (BA (Econ), LLB (Hons), CFA) is a director and Chief Executive of NZ Funds. Michael joined NZ Funds in 1993. He left to work overseas in 2003 and returned in 2008. Michael became a director of NZ Funds in 2010 and was appointed Chief Executive on 1 October 2018. Michael is not an independent director as he is an employee of NZ Funds and has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

**Richard Stuart Taylor James** (Dip. Bus. (Finance)) is a director and consultant to NZ Funds. Richard originally joined NZ Funds as an employee in 1993 and became a director of NZ Funds in August 2006. He was appointed as a consultant on 1 October 2018, having previously been Chief Executive of NZ Funds since 2009. Richard is not an independent director as he has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

**Russell William Tills** (BCom, ACA) is a non-executive director of NZ Funds. Russell has more than 35 years' experience in the financial services industry in New Zealand and overseas. He joined NZ Funds in 1989 and, along with Gerald Siddall, was responsible for building and leading NZ Funds until 2009. He was a director of NZ Funds until March 2010. He was reappointed as a director of NZ Funds on 21 March 2016. Russell is not an employee of NZ Funds and he is not an independent director as he has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

**John Lindsay Cobb** (PG Dip (Business Finance), NZX Diploma, Level 1 and 2, ASX Derivatives qualification) is an independent director of NZ Funds. He was appointed a director of NZ Funds on 1 February 2019. John has had a 20-year career in share broking and investment banking, and now works with a number of small businesses assisting with growth and investment.

Our directors may change from time to time. You can find the names of our directors at [companies-register.companiesoffice.govt.nz](http://companies-register.companiesoffice.govt.nz).

## 4. OTHER PARTIES

### SUPERVISOR

The New Zealand Guardian Trust Company Limited is the supervisor (Supervisor) of the Scheme. The Supervisor is licensed by the FMA to act as a supervisor of registered managed investment schemes under the Financial Markets Supervisors Act 2011. More information on their licence is available on the FMA's website at [www.fma.govt.nz](http://www.fma.govt.nz).

The Supervisor's current directors are Robin Albert Flannagan and James Earl Douglas. The Supervisor's directors may change from time to time. You can find the names of the Supervisor's directors at [companies-register.companiesoffice.govt.nz](http://companies-register.companiesoffice.govt.nz).

### ADMINISTRATION MANAGER

The administration manager is Link Market Services Limited (Administration Manager). The Administration Manager performs day-to-day administration functions for the Scheme.

### AUDITOR

The auditor is Ernst & Young. Ernst & Young is registered under the Auditor Regulation Act 2011.

### SOLICITORS

The solicitors are Russell McVeagh.

## 5. SUPERVISOR & MANAGER INDEMNITY

Unless it fails to meet the standard of care required by the FMC Act, if the Supervisor incurs any expense or liability in carrying out its role as Supervisor, it is indemnified under the Trust Deed (and can be reimbursed) from Scheme assets. We, as manager, are also indemnified on the same terms. More information is set out in the Trust Deed.

## 6. JOINING & CONTRIBUTIONS

### JOINING THE SCHEME

How you join the Scheme is explained in the PDS. You can join the Scheme if you are a New Zealand citizen or entitled to be in New Zealand indefinitely; and living (or normally living) in New Zealand (with some exceptions).

If you are not already in a KiwiSaver scheme, you may be automatically enrolled in the Scheme if your new employer has chosen the Scheme as their preferred KiwiSaver scheme. If you have been automatically enrolled, you can choose to opt out of the Scheme between weeks two and eight of your membership.

Unless the KiwiSaver Act says differently, we can choose to accept or reject any application you make. We can also delay accepting your application for up to two business days.

### CONTRIBUTIONS

You can contribute to your KiwiSaver account in the following ways:

- For employees, through your employer using the PAYE system; and
- For all Members (including employees, self-employed and not employed), by regular or lump sum payments made directly to the Scheme or through Inland Revenue.

The KiwiSaver Act sets a minimum contribution rate for Members who are employees. Generally, your employer will also contribute to your KiwiSaver account and you may qualify to receive Government contributions (previously called member tax credits).

### MEMBER CONTRIBUTIONS

#### How to contribute if you are an employee

If you are an employee, you can choose a contribution rate of 3%, 4%, 6%, 8% or 10% of your before-tax pay. If you do not choose a contribution rate, your contribution rate will be 3% (the current minimum under the KiwiSaver Act).

Your employer will deduct your contributions from your after-tax pay and forward them to the Scheme through Inland Revenue. You can change your contribution rate at any time by completing a KS2 form and giving it to your employer. You can complete this form online through the myNZFunds client portal. You can only change your contribution rate at intervals that are less than 92 days apart if your employer agrees.

If you are new to KiwiSaver (i.e. the Scheme is your first KiwiSaver scheme), Inland Revenue holds any contributions they receive for you until you have been a member of the Scheme for three months. After three months, Inland Revenue will forward your contributions plus any interest to the Scheme.

If you are an employee and under age 65, you must contribute at the minimum employee contribution rate (currently 3%) unless you take a savings suspension. Generally, after being a member of KiwiSaver for one year, you can take a savings suspension if you want to stop making contributions temporarily. Once you have reached age 65<sup>1</sup>, you can tell your employer to stop making contributions from your pay if you wish.

As an employee, you can also make voluntary lump sum or regular contributions to your Scheme account at any time, including after you have reached age 65.

### **How to contribute if you are self-employed or not employed**

If you are self-employed or not employed, you can make voluntary lump sum or regular contributions at any time.

### **Member voluntary contributions**

Any Member can make lump sum or regular contributions to the Scheme. There are currently no minimum amounts.

To make regular contributions, you will need to complete a direct debit form (available at the back of the PDS or on our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz)) and send it to the Administration Manager. We may accept alternative payment methods for regular contributions. You can stop voluntary regular contributions at any time by telling the Administration Manager.

Lump sum contributions can be made directly to the Scheme or through Inland Revenue. To make a payment directly to the Scheme, you will need to complete a lump sum contribution form (available on our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz)) and send it to the Administration Manager.

Payment through Inland Revenue can be made at any Westpac branch, by internet banking, or by cheque. For more information on how to make payments through Inland Revenue, go to [www.kiwisaver.govt.nz](http://www.kiwisaver.govt.nz).

## **EMPLOYER CONTRIBUTIONS**

You can receive compulsory employer contributions if you are:

- An employee and contributing to the Scheme through your pay; and
- Aged 18 and over but under the age of eligibility for New Zealand Superannuation (currently 65).<sup>1</sup>

Compulsory employer contributions are currently at the rate of 3% of your before-tax pay. Your employer may choose to contribute more than this amount. After you reach age 65, you can keep making employee contributions. However, your employer is not required to make compulsory employer contributions.

Your employer does not have to make compulsory employer contributions if you are not contributing (for example, if you are taking a savings suspension or are on leave without pay). Also, the amount of compulsory employer contributions may be reduced if your employer is required to contribute to a complying superannuation fund or other retirement scheme, for your benefit.

Your employer must deduct employer's superannuation contribution tax (ESCT) from its contributions before they are paid into the Scheme.

## **GOVERNMENT CONTRIBUTIONS**

If you are eligible, the Government will contribute to your KiwiSaver account at the rate of 50c for every dollar you contribute up to a maximum of \$521.43 a year (around \$10.00 a week). To be eligible for the maximum Government contribution, you will need to contribute at least \$1,042.86 each year between 1 July and 30 June.

You are eligible for Government contributions if you:

- Are aged 18 or over and under the age of eligibility for New Zealand Superannuation (currently 65)<sup>1</sup>; and
- Live, or normally live, in New Zealand (subject to some exceptions).

Government contributions are paid annually based on the number of days in each year (1 July to 30 June) you were eligible. The contribution will reduce for any part of the year that you were not eligible. You do not have to do anything to be paid the Government contribution if you are eligible for it; we will apply for it on your behalf.

1. If you joined KiwiSaver (or a complying superannuation fund) before 1 July 2019, a 5 year minimum membership requirement applies if you were aged 60 or over when you joined. During the 5 year minimum membership period, you must continue to contribute if you are working (unless you take a savings suspension). You will also be eligible for Government contributions and compulsory employer contributions during this 5 year membership period. Once you have reached age 65, you can opt out of the 5 year minimum membership requirement and withdraw some or all of your money in the Scheme. However, if you do so you will no longer be able to receive any Government or compulsory employer contributions.

## SAVINGS SUSPENSION

If you are employed and have been a member of KiwiSaver for at least 12 months, you can take a break from making contributions. To do so, you will need to apply to Inland Revenue for a savings suspension. Your savings suspension must be for a minimum of three months up to a maximum of one year.

You can apply within the first 12 months of being a KiwiSaver member if you are suffering, or likely to suffer, financial hardship. You will need to provide evidence of financial hardship to support your application. If your savings suspension is approved, it will usually be for a maximum of three months (unless Inland Revenue agrees to a longer period).

Your employer does not have to make compulsory employer contributions to your KiwiSaver account while you are taking a savings suspension. These compulsory employer contributions will restart when you start making contributions from your pay again.

You can apply for another savings suspension when the one you are taking expires. There is no limit to the number of times you can apply for a savings suspension. You can end a savings suspension at any time by telling your employer.

## 7. WITHDRAWALS

The table below shows the main types of withdrawals and what you can withdraw under the KiwiSaver Act. More information on each of these withdrawals is included below:

| WITHDRAWAL TYPE   | MEMBER CONTRIBUTION | EMPLOYER CONTRIBUTION | GOVERNMENT CONTRIBUTION | \$1,000 KICK-START (IF APPLICABLE) <sup>1</sup> | AMOUNTS TRANSFERRED FROM AN AUSTRALIAN COMPLYING SUPERANNUATION FUND |
|---|---------------------|-----------------------|-------------------------|---|--|
| Retirement  | ✓                   | ✓                     | ✓                       | ✓   | ✓  |
| First home purchase <sup>2</sup>                        | ✓                   | ✓                     | ✓                       |   |  |
| Significant financial hardship                          | ✓                   | ✓                     |                         |   | ✓  |
| Serious illness   | ✓                   | ✓                     | ✓                       | ✓   | ✓  |
| Life-shortening congenital condition                    | ✓                   | ✓                     | ✓                       | ✓   | ✓  |
| Permanent emigration (other than to Australia)          | ✓                   | ✓                     |                         | ✓   |  |
| Permanent emigration to Australia (transfer only)       | ✓                   | ✓                     | ✓                       | ✓   | ✓  |
| Death   | ✓                   | ✓                     | ✓                       | ✓   | ✓  |
| Retirement withdrawal of Australian savings from age 60 |                     |                       |                         |   | ✓  |

1. You will only have received a \$1,000 kick-start contribution from the Government if you first joined KiwiSaver before 2.00pm on 21 May 2015.
2. You must leave a minimum of \$1,000 and any amount transferred from an Australian complying superannuation fund in your KiwiSaver account after the withdrawal.

## RETIREMENT WITHDRAWAL

KiwiSaver is designed to help you save for retirement. Unless you meet one of the early withdrawal criteria below, you cannot withdraw your money from the Scheme until you reach the age of eligibility for New Zealand Superannuation (currently 65)<sup>1</sup>. Once you reach age 65, you can withdraw some or all of your investment at any time. You do not have to withdraw your money when you reach age 65 if you do not want to.

## EARLY WITHDRAWALS

You can apply to withdraw some or all of your KiwiSaver savings before age 65 in the following circumstances:

- First home purchase;
- Significant financial hardship;
- Serious illness;
- Life-shortening congenital condition;
- Permanent emigration (other than to Australia); or
- Permanent emigration to Australia.

If you have transferred savings from an Australian complying superannuation fund, you can withdraw some or all of that amount when you reach age 60 if you meet the 'retirement' definition under Australian law.

### First home purchase

You can apply to withdraw some of your KiwiSaver savings to purchase your first home in New Zealand (including an interest in a private residence on Maori land) if you meet all of the following:

- You have been a member of a KiwiSaver scheme (or a complying superannuation fund) for at least three years;
- The property you are purchasing is intended to be the main place you live in;
- You have never owned property before (limited exceptions apply); and
- You have not made a first home withdrawal from a KiwiSaver scheme before.

If you have owned property or land before, you may still be able to apply for a first home withdrawal if Kainga Ora – Homes and Communities (previously, Housing New Zealand) confirms you are in a similar financial position as a first home buyer.

You must leave a minimum of \$1,000 in your KiwiSaver account after the first home withdrawal. Also, you cannot withdraw any money transferred to your account from an Australian complying superannuation fund. You will remain a member of the Scheme after we have paid your first home withdrawal.

You may also be eligible for a Government grant if you meet the criteria set by Kainga Ora – Homes and Communities. More information on this grant (KiwiSaver HomeStart Grant) is available at [www.kaingaora.govt.nz](http://www.kaingaora.govt.nz).

### Significant financial hardship

You can apply to make a withdrawal if you suffer, or are likely to suffer, significant financial hardship. For example, if you are unable to:

- Meet your minimum living expenses (such as power, water, food, and rent/board/mortgage payments);
- Meet the mortgage payments on your home where your lender enforces its mortgage;
- Pay medical bills for you or a dependant;
- Pay to modify your home to meet special needs for you or a dependant caused by a disability; or
- Meet funeral costs if a dependant dies.

You will need to give evidence showing that you are suffering or are likely to suffer significant financial hardship as it is defined under the KiwiSaver Act, give a statutory declaration of your assets and liabilities, and show that all reasonable alternative sources of funding have been explored and exhausted.

We will pass any application you make to the Supervisor for its approval. The Supervisor can limit the withdrawal to an amount it thinks is enough to help with your hardship. You cannot withdraw any Government contributions or any of the \$1,000 'kick-start' contribution (if you received one). If your application is accepted, you will remain a member of the Scheme after your significant financial hardship withdrawal is paid.

### Serious illness

You can apply to withdraw all of your KiwiSaver savings if you have an injury, illness or disability that results in either:

- You being totally and permanently unable to engage in work that you are suited for based on your experience, education, training, or any combination of those things; or
- A serious and imminent risk of death.

1. If you joined KiwiSaver (or a complying superannuation fund) before 1 July 2019, a 5 year minimum membership requirement applies if you were aged 60 or over when you joined. You can opt out of this requirement, and if you are aged 65 or over withdraw some or all of your money in the Scheme.

You will need to complete a statutory declaration and give medical evidence that shows you are suffering from a serious illness. We will pass any application you make to the Supervisor for its approval.

### **Life-shortening congenital condition**

You can apply to withdraw all of your KiwiSaver savings if you have a life-shortening congenital condition. A list of congenital life-shortening conditions qualifying people for a withdrawal is to be set out in regulations. There is also an ability for people who have non-designated congenital conditions to apply for a withdrawal.

We will pass any application you make to the Supervisor for its approval. The Supervisor may require you to give medical evidence that shows you have a congenital life-shortening condition.

### **Permanent emigration (other than to Australia)**

If you permanently move to any country other than Australia and have been away for more than a year, you can apply to withdraw your KiwiSaver savings. You will need to complete a withdrawal request, including a statutory declaration, and give evidence showing you have permanently moved.

You will be able to withdraw all your savings except for any Government contributions and any amount transferred from an Australian complying superannuation fund. Any Government contributions will be repaid to Inland Revenue. Any amount that was transferred from an Australian complying superannuation fund, will remain in your KiwiSaver account.

### **Permanent emigration to Australia**

If you permanently move to Australia, you cannot withdraw your KiwiSaver savings. Instead, you can transfer all of your KiwiSaver savings to an Australian complying superannuation fund that agrees to accept the transfer. Alternatively, your KiwiSaver savings can remain invested in the Scheme.

Please contact us or the manager/administrator of your Australian complying superannuation fund to find out how you can transfer your savings to Australia.

## **OTHER WITHDRAWALS**

### **Death**

If you die while a member of the Scheme, your personal representatives (that is, the executors or administrators of your estate) can apply to withdraw the balance of your KiwiSaver account. If your savings are less than the prescribed amount (currently \$15,000) and other conditions are met, we can pay your KiwiSaver balance directly to a person allowed by law to receive it. This could be a surviving spouse or partner.

## **Tax liability and student loan obligations**

You can make a withdrawal to meet any New Zealand tax liability or student loan repayment obligation that arises from the transfer of your money from an overseas superannuation scheme (other than an Australian complying superannuation fund) to the Scheme.

You will need to give us a statement setting out details of the transfer and the liability that it creates, and you must apply for this withdrawal within two years after Inland Revenue assesses your liability. You cannot withdraw any Government contributions you have received to meet this liability. In some circumstances, the withdrawal can trigger a foreign tax liability.

### **Other laws**

We and the Supervisor will comply with any law or Court order telling us to release some or all of your money from the Scheme. For example, a Court order under the Property (Relationships) Act 1976.

## **WITHDRAWING GOVERNMENT CONTRIBUTIONS**

Before you can withdraw any Government contributions, you will need to complete a statutory declaration confirming the dates your main place of residence has been in New Zealand.

## **HOW TO REQUEST A WITHDRAWAL**

You can request a withdrawal by completing the relevant withdrawal form and sending it to the Administration Manager. Withdrawal forms are available on our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz).

## **TRANSFERS**

You can transfer between the Scheme and another KiwiSaver scheme or permitted retirement scheme at any time. You can only be a member of one KiwiSaver scheme at a time.

If your investment in the Scheme includes money transferred from a UK pension scheme, an early withdrawal or a transfer to another KiwiSaver scheme can have UK tax implications.

## **CLOSING YOUR ACCOUNT**

We can close your KiwiSaver account if it has a zero balance. We will contact you before we do this. Your account will also be closed if you transfer to another KiwiSaver scheme or other superannuation scheme.



## 8. OTHER KEY TERMS

This section summarises some of the key terms used in the Scheme. For more detailed information, please see the Trust Deed.

### VALUATION & UNIT PRICING

Calculating a unit price allows us to value your investment in a Strategy. Each Strategy's unit price is calculated by dividing the net asset value of that Strategy by the number of units issued to Members. The net asset value is the value of a Strategy's assets less its liabilities.

The Trust Deed sets out the principles that apply to the valuation of a Strategy's assets and calculation of net asset value. We generally calculate the net asset value of a Strategy each business day (called a Valuation Day).

We may set valuation methods and policies for each category of asset and change them from time to time. The Supervisor approves the methods and policies and we will tell the Supervisor if we make any changes. Sometimes we use estimates to value assets, for example, where assets are priced monthly, or where assets become illiquid (difficult to convert to cash) or are not regularly traded.

Specific transactions (for example, large transactions) may require us to adjust the unit price for that day so that the costs of those transactions are only paid by the Members involved in those transactions. We do not currently charge transaction costs.

### WITHDRAWAL PAYMENTS

Withdrawals will be processed at the unit prices on the next Valuation Day following the day on which your withdrawal request is approved. Once a withdrawal request is approved, you will normally receive your funds within 10 to 15 business days.

### SUSPENSION POWERS

We can suspend net asset value calculations, withdrawals, or transfers to or from the Scheme or any Strategy (including switches) if we think allowing them is not practicable or would be prejudicial to the interests of any Members. We have to tell the Supervisor if we do this, and the suspension period cannot be longer than 10 days unless the Supervisor agrees.

### BORROWING

Borrowing is allowed under the Trust Deed. However, the Strategies do not currently borrow money for the purpose of investing. This does not include ongoing operational agreements with service providers such as overdraft facilities and creditor relationships or leverage created through the use of derivatives.

### TERMINATING OR CHANGING A STRATEGY

We may terminate, close or change the nature of any Strategy, or combine any two or more Strategies, on terms and conditions as we think fit. We have to tell the Supervisor before we do this.

These terms and conditions may specify that any Member who does not consent to the termination or change will be required to transfer to another KiwiSaver scheme under the rules in the KiwiSaver Act.

### WINDING-UP/INSOLVENCY

If the Scheme is wound up or becomes insolvent, the assets of the Strategies will be sold and the money will be used first to meet the claims of any creditors. After all creditors have been paid, your share of what remains will be transferred to another KiwiSaver scheme chosen by you.

If you do not choose, then Inland Revenue will transfer your share to a default KiwiSaver scheme. We can postpone the sale of any Strategy assets for as long as we reasonably think it is desirable in the interests of Members.

### INDEMNITY FOR TAX LIABILITY

You are required to repay us and the Supervisor for any tax paid on your behalf on income from your investment in the Scheme. This only applies if you do not have enough money in the Scheme to meet your tax liability.

### CHANGES TO TRUST DEED

The Trust Deed can be changed by us and the Supervisor. Any changes must comply with the KiwiSaver Act and the FMC Act.

## 9. MORE ABOUT FEES & CHARGES

### ANNUAL FUND CHARGES

Estimated annual fund charges are included in section 5 of the PDS and are made up of a base fee, service fee (which covers the Supervisor's fee and other service charges), external manager fee, and performance fee.

In addition to annual fund charges, transaction costs of buying and selling assets (e.g. brokerage) are paid directly or indirectly by the Strategies and reflected in the unit price.

## BASE FEE

Each Strategy is charged an annual base fee by NZ Funds which covers the management of the Strategy. The fee is calculated daily and paid monthly. The current base fees are:

| STRATEGY               |          | BASE FEE* (P.A.) |
|------------------------|----------|------------------|
| Income Strategy        |          | 0.95%            |
| Inflation Strategy     |          | 1.05%            |
| Growth Strategy        |          | 1.10%            |
| LifeCycle <sup>1</sup> | Age 0-54 | 1.09%            |
|                        | Age 65   | 1.04%            |
|                        | Age 75   | 1.03%            |

\* As a percentage of the gross asset value of each Strategy.

We may change the base fee, so long as we tell the Supervisor and the new fee is reasonable. We may also charge a Member, or group of Members (including any group of Members advised by a financial adviser), a lower base fee, or we may rebate all or some of the base fee for a Member or a group of Members. Please see below details of current fee rebates.

### Fee rebates

We will rebate a portion of our base fee from our own funds based on the total amount you have invested in the Scheme and other managed funds offered by NZ Funds (your total investment). If your total investment is \$1,000,000 or more, we will give you a base fee rebate of: 0.17% of the proportion of your investment in the Inflation Strategy; and 0.40% of the proportion of your investment in the Growth Strategy.

Your entitlement to receive a fee rebate is based on your total investment at each calculation date. This means that contributions, withdrawals and market movements may influence whether or not you are entitled to a rebate. We may also extend the rebate calculation to include your related accounts.

The base fee rebate is calculated daily based on your investment balance and paid monthly by giving you extra units in the relevant Strategies. The rebate will generally be paid on the 25th of each month. If you fully withdraw from the Scheme before we pay any fee rebate, you will no longer be entitled to that rebate.

We may change the rate and basis for calculating the base fee rebate, or remove the rebate, at any time. If we decrease the rebate rate or remove the rebate, we will give one month's notice to Members affected by the change.

In addition to our fee rebate, we may from our own funds, pay or rebate some or all of the fees and expenses incurred in a Strategy or any of the Wholesale Trusts (defined below).

## SERVICE FEE

### Supervisor fee

The Supervisor charges a fee for its services. The Supervisor fee for each Strategy is currently up to 0.04% per annum of the gross asset value of the Strategy. Supervisor fees are calculated daily and paid by each Strategy monthly. Estimates of Supervisor fees are included within 'annual fund charges' in the PDS. The Supervisor may, if we agree, change the Supervisor fee at any time so long as the new fee is reasonable.

### Other third party service charges

The Strategies and the wholesale trusts managed by us (Wholesale Trusts) that the Strategies invest in may incur other third party charges for services such as legal, audit and custody. These third party service charges are paid out of the assets of the Strategy or Wholesale Trust. Estimates of these charges are included within 'annual fund charges' in the PDS.

### Wholesale Trust administration fee

We currently charge an administration fee in some of the Wholesale Trusts that the Strategies invest in. These fees are on arm's length terms and meet the requirements for related party transactions in the FMC Act. The returns of a Strategy will be indirectly affected by these fees. Estimates of Wholesale Trust administration fees are included within 'annual fund charges' in the PDS. They are estimated to be 0.09% of the net asset value of each Strategy.

## EXTERNAL MANAGER FEE

The Strategies may invest in underlying funds managed by external specialist investment managers (external managers) which may charge fees (including entry fees, exit fees, management and administration fees, and performance fees) and incur expenses. The returns of a Strategy will be indirectly affected by these fees and expenses.

1. We have selected 3 examples to provide information on LifeCycle in this document.

The annual fund charges in the PDS include the following estimated external manager fees:

| STRATEGY           | ESTIMATED EXTERNAL MANAGER FEE* |
|--------------------|---------------------------------|
| Income Strategy    | 0.00%                           |
| Inflation Strategy | 0.18%                           |
| Growth Strategy    | 0.37%                           |
| LifeCycle          |                                 |
| Age 0-54           | 0.33%                           |
| Age 65             | 0.21%                           |
| Age 75             | 0.18%                           |

\*As a percentage of the net asset value of each Strategy.

An external manager will typically only charge a performance fee when its investment return outperforms a benchmark or a performance hurdle (which may be 0%). The above estimates include performance fees which are based on an assumption of the likely outperformance of the current external managers.

Estimates of other external manager fees and expenses are based on fee information provided by the current external managers. Assumptions on the percentage of each Strategy invested in external managers are based on the Strategies' current target allocations.

The external managers and the Strategies' allocation to those managers will change from time to time. Actual fees will depend on the managers selected, their performance, and the Strategies' allocation to those managers, and will vary from the estimates.

## PERFORMANCE FEE

None of the Strategies are charged a performance fee directly by us. However, where specific performance targets are met, NZ Funds may charge a performance fee in the Private Dividend Yield Trust, a Wholesale Trust that the Inflation and Growth Strategies currently invest in.

We may also charge a performance fee in other Wholesale Trusts that the Strategies invest in, however, we currently rebate any performance fee indirectly paid by the Strategies in these other Wholesale Trusts.

The performance fee for the Private Dividend Yield Trust is calculated daily and reflected in its unit price. Performance fees are paid on or after 31 March each year, subject to a high-water mark as described in the PDS. The high-water mark cannot be reset lower.

The Private Dividend Yield Trust uses a combination of recognised market indices as its performance hurdle rate of return. Outperformance of these market indices, whether the market indices return is positive or negative, will result in a performance fee being accrued even though the unit price may be below the last high-water mark.

The performance returns of the Private Dividend Yield Trust are calculated on a before tax basis and include imputation credits. When we calculate the performance of the hurdle rate, we include a notional management fee of 0.40% per annum. This has the effect of increasing the required level of return the Private Dividend Yield Trust must achieve before it is eligible for a performance fee.

The table on page 12 contains an example of the Private Dividend Yield Trust performance fee. It is a simplified example of how the performance fee is calculated in different scenarios. It is for illustration only and is not an indication of actual or forecast investment returns.

## Example of Private Dividend Yield Trust performance fee

| FINANCIAL YEAR | INVESTMENT VALUE AT START OF YEAR | INVESTMENT VALUE AT END OF YEAR (BEFORE PERFORMANCE FEE) | INVESTMENT RETURN | HURDLE RATE | RELATIVE PERFORMANCE |          | VALUE OF UNDER-PERFORMANCE BROUGHT FORWARD | NET OUT PERFORMANCE | PERFORMANCE FEE CHARGED | HIGH WATER MARK | HIGH WATER MARK MET | PERFORMANCE FEE PAID | PERFORMANCE FEE ACCRUED TO PAY IN FUTURE YEARS | UNDER PERFORMANCE CARRIED FORWARD |
|----------------|-----------------------------------|--|-------------------|-------------|----------------------|----------|--|---------------------|-------------------------|-----------------|---------------------|----------------------|--|-----------------------------------|
|                |                                   |  |                   |             | %                    | \$       |  |                     |                         |                 |                     |                      |  |                                   |
| Y1             | \$10,000.00                       | \$11,000.00  | 10.0%             | 8.0%        | 2.0%                 | \$200.00 | NIL  | \$200.00            | \$30.00                 | \$10,000.00     | ✓                   | \$30.00              | NIL  | NIL                               |
| Y2             | \$10,970.00                       | \$11,847.60  | 8.0%              | 10.0%       | -2.0%                | NIL      | NIL  | -\$219.40           | NIL                     | \$10,970.00     | ✗                   | NIL                  | NIL  | -\$219.40                         |
| Y3             | \$11,847.60                       | \$10,662.84  | -10.0%            | -15.0%      | 5.0%                 | \$592.38 | -\$219.40                                  | \$372.98            | \$55.95                 | \$10,970.00     | ✗                   | NIL                  | \$55.95  | NIL                               |
| Y4             | \$10,606.89                       | \$12,197.93  | 15.0%             | 15.0%       | 0.0%                 | 0.0%     | NIL  | NIL                 | 0.0%                    | \$10,970.00     | ✓                   | \$55.95              | NIL  | NIL                               |

*In this example, the performance fee of the Private Dividend Yield Trust (Wholesale Trust) is 15% of the amount by which its performance (before tax but including imputation credits) exceeds the hurdle rate of return. In year one, the Wholesale Trust outperforms the hurdle rate by 2% accruing a performance fee which is then paid at the end of the performance period and a new high-water mark set.*

*In year two, the Wholesale Trust underperforms the hurdle rate and consequently no performance fee is accrued. Any underperformance is carried forward and must be recovered before any future performance fee is accrued. This is illustrated in year three, when the Wholesale Trust returns more than the hurdle rate and the year two underperformance is recovered. As the outperformance in year three exceeds the underperformance from year two, a performance fee is accrued in year three. However, no performance fee is paid at the end of year three as the Wholesale Trust is below the last high-water mark (set in year one).*

*The performance fee accrued in year three is not paid until the end of year four, when the Wholesale Trust exceeds the high-water mark. A new high-water mark is set at the end of year four.*

The annual fund charges in the PDS include the following estimated performance fees:

| STRATEGY           | ESTIMATED PERFORMANCE FEE* |
|--------------------|----------------------------|
| Income Strategy    | n/a                        |
| Inflation Strategy | 0.02%                      |
| Growth Strategy    | 0.02%                      |
| LifeCycle          |                            |
| Age 0-54           | 0.02%                      |
| Age 65             | 0.01%                      |
| Age 75             | 0.01%                      |

\*As a percentage of the net asset value of each Strategy.

These estimates are based on the following assumption:

- An assumption that the Private Dividend Yield Trust will on average achieve returns above the market indices (hurdle rate) over the long term.
- Assumptions on the percentage of the Inflation Strategy and Growth Strategy invested in the Private Dividend Yield Trust are based on current target allocations.

The estimates are not intended to indicate any expected returns or fees. Actual performance fees will vary from the estimates. Actual performance fees for the most recent year are available in the latest quarterly fund update, which you can get from our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz).

All performance fees paid to NZ Funds by the Private Dividend Yield Trust are on arm's length terms and meet the requirements for related party transactions in the FMC Act.

### EXPENSE REIMBURSEMENT

The Trust Deed allows us, the Supervisor, and any parties that may be appointed by us or the Supervisor to be reimbursed for all expenses properly incurred.

### BASIS FOR ESTIMATES OF FUND CHARGES IN PDS

The annual fund charges in the PDS include estimates of Supervisor fees, other third party service charges, Wholesale Trust administration fees, external manager fees, and performance fees.

Estimates of external manager fees and performance fees are discussed above. All other estimates are based on the assumption that the ongoing level of these charges will be similar to those charged in the most recent financial year.

Actual annual fund charges for each Strategy for the most recent year are available in the latest quarterly fund update, which you can get from our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz).

#### **OTHER CHARGES**

If you are 18 or over, you will be charged an administration fee of \$36 a year by the Administration Manager. This fee is deducted from your account monthly.

#### **ACTION FEES**

We do not charge any establishment, contribution, termination, withdrawal, switch or transfer fees.

#### **GST**

Fee estimates do not include GST or other similar tax. This means that if any GST or other similar tax is payable, it will be in addition to the stated fee.

#### **SERVICE PAYMENTS**

We may pay financial advisers an onboarding and ongoing service payment in recognition of the effort and costs associated with providing services to you regarding your investment in the Scheme. Where this occurs, NZ Funds makes these payments out of its own funds and does not deduct these from the Strategies.

## **10. RISKS**

Every investment has risks. The primary risks of investing in the Scheme include:

- Not getting back some or all of your money;
- Not getting the returns you expected;
- Experiencing periods where your investment is worth less than it was previously; and
- Not being able to withdraw from the Scheme when you want to.

The following information is in addition to section 4 of the PDS – “What are the risks of investing?”. In the PDS, we discuss what we believe are the more significant risks of investing in the Scheme. However, there are other risks associated with the Scheme that could impact your investment which are discussed below. If any of these risks eventuate, the Scheme or any Strategy may be adversely affected and you could receive back less than you invested.

**No rate of return or repayment of your investment is guaranteed by NZ Funds, the Supervisor, or any other person.**

### **GENERAL INVESTMENT RISKS**

#### **Interest rate risk**

This is the risk that a Strategy's returns may fluctuate as a result of changes in interest rates.

#### **Credit risk**

This is the risk that a Strategy's returns may fluctuate as a result of an issuer of a security failing to pay interest or principal when due.

#### **Equity risk**

This is the risk that a Strategy's returns may fluctuate as a result of changes in the value of equity investments. An equity investment may be affected by many factors, including the performance of the relevant company, market opinion, and the economic performance of a country or sector.

#### **Derivative risk**

The use of derivatives can be a key component in the management of a Strategy. Derivatives may be used to seek to reduce or enhance the volatility of the Strategy but no guarantee can be (or is) provided that this will be the case. Certain derivatives may limit both the downside and upside potential of a Strategy.

#### **Political risk**

This is the risk that a Strategy's returns may fluctuate as a result of political changes or instability in a country. This could arise from a change in government, legislative bodies, other foreign policy makers, or military actions. Political risk may also arise as a result of geo-political events such as wars, terrorist acts and tensions between states.

### **OTHER RISKS**

#### **Counterparty risk**

This is the risk that a party to a financial transaction or contract involving a Strategy fails to meet its obligations. If this occurs, your investment may be adversely affected.

#### **Operational risk**

This is the risk of failure of internal or external processes, people, policies, technology or systems (for example, a material error in the pricing process), or external events affecting our or the Scheme's operations. If this occurs, your investment may be adversely affected.

#### **Cybersecurity risk**

This is the risk of attack, damage or unauthorised access to the networks, computers, programs or data that we use. If this occurs, your investment and personal information may be adversely affected.

### Service provider risk

This is the risk that a key service provider to the Scheme (for example the Supervisor, the Manager, the Administration Manager, the trustee and custodian of the Wholesale Trusts, external managers, investment brokers and banks) fail to perform their obligations. If this occurs, your investment may be adversely affected.

### Wholesale Trust investment risk

The Strategies can invest in Wholesale Trusts. Wholesale Trust investment risk is the risk that an adverse event happens at the Wholesale Trust level or the Wholesale Trusts are wound up. If this occurs, your investment may be adversely affected.

### Valuation risk

The Strategies' unit prices are based on market price information provided by various sources. Valuation risk is the risk that these sources fail to provide an accurate price, or any price whatsoever. If this occurs, your investment may be adversely affected.

### Suspension of withdrawals risk

In certain circumstances, we can suspend or partially suspend withdrawals from the Scheme or any Strategy. If this happens, you may not be able to withdraw or switch your investment when you want to.

### Tax risk

Income, dividends and interest, and gains on securities and investments that the Strategies invest in may be subject to taxes (including withholding taxes) imposed by tax authorities in New Zealand and/or other jurisdictions. The Strategies may not be able to claim a credit for these taxes.

The Scheme is currently a Portfolio Investment Entity (PIE). If the Scheme loses its PIE tax status, your after-tax returns may be reduced.

### Regulatory risk

This is the risk that the laws and regulations applying to the Scheme, each Strategy, and its investments (including the KiwiSaver regime) change in a way that adversely affects the Scheme, a Strategy, or your investment. For example, a change to the KiwiSaver Act may affect minimum contribution rates or permitted withdrawals.

### Insolvency risk

This is the risk of the Scheme or a Strategy becoming insolvent or being otherwise unable to meet its financial obligations. If this occurs, your investment may be adversely affected.

### Pandemic risks

There is the risk that the Strategies' returns may fluctuate, or that the Scheme or the Strategies may be adversely affected, as a result of virus, disease or other widespread health risks such as the COVID-19 pandemic. The emergence of COVID-19 (or other widespread health risks) can have a significant impact on financial markets and the operations of the Scheme. If this occurs, your investment may be adversely affected.

The expected duration and magnitude of the current COVID-19 pandemic and/or other potential widespread health risks, and the severity and range of their potential impact on your investment, are currently uncertain. An investor should bear this in mind when deciding whether to invest.

**The risks described in the PDS and this document are considered to be important risks, but do not cover all known risks of investing in the Scheme. There may also be other risks which are currently unknown that may affect your investment in the Scheme.**

## 11. CONFLICTS OF INTEREST

Our Conflicts of Interest Policy provides a framework for identifying, declaring and managing actual or potential conflicts of interest. The policy also covers gifts and hospitality and forms part of our broader conflicts of interest compliance and ethics framework.

The Conflicts of Interest Policy is complemented by our Personal Holdings Policy and our Related Party Transactions Policy. Our Personal Holdings Policy contains restrictions on employees holding or trading in securities. Our Related Party Transactions Policy provides a framework for identifying and managing related party transactions and ensures that all related party transactions comply with the FMC Act. In addition to these policies and procedures, the FMC Act imposes controls on conflicts of interest.

A conflict of interest that currently exists and affects every Strategy is their investment in the Wholesale Trusts where we charge an administration fee. In addition, the Inflation and Growth Strategies invest in the Private Dividend Yield Trust where we charge a performance fee.

These fees will affect the value of the Wholesale Trusts, and indirectly the returns of the Strategies. This conflict of interest could materially influence the investment decisions in respect of the Scheme if non-arm's length fees were paid. We manage this conflict by making sure that all related party fee transactions comply with the FMC Act and our Related Party Transactions Policy.

## 12. HOW YOUR INVESTMENT IS TAXED

If you have any questions about your tax position as a result of investing in the Scheme, we encourage you to talk to your tax adviser. We and the Supervisor do not take any responsibility for your tax position as a result of investing in the Scheme.

### PORTFOLIO INVESTMENT ENTITIES (PIES)

The Scheme has chosen to be a Portfolio Investment Entity (PIE). Under the PIE rules, we will calculate the tax due on your investment in the Scheme each quarter based on your Prescribed Investor Rate (PIR) and pay this tax to Inland Revenue on your behalf.

If you are due a tax refund, we will use it to buy more units in the Scheme for you, as long as you are still invested in the Scheme when we receive the refund from Inland Revenue. If you are no longer invested in the Scheme, we will pay the refund to you.

### CHOOSING YOUR PIR

You need to choose your PIR and tell us what it is. If you do not tell us what your PIR is, we will set it at 28%. You also need to tell us your IRD number.

Your PIR is based on your taxable income and PIE income for each of the two previous tax years, and is based on the year which has the lower combined income amount. You can use the table below to help you work out your PIR:

| TAXABLE INCOME      |     | TAXABLE INCOME<br>+ PIE INCOME | PIR   |
|---------------------|-----|--------------------------------|-------|
| \$0 – \$14,000      | AND | \$0 – \$48,000                 | 10.5% |
| \$0 – \$14,000      | AND | \$48,001 – \$70,000            | 17.5% |
| \$14,001 – \$48,000 | AND | \$0 – \$70,000                 | 17.5% |
| Over \$48,001       | AND | Any amount                     | 28.0% |
| Any amount          | AND | Over \$70,000                  | 28.0% |

It is important that you choose the correct PIR. If you select a PIR that is too high, you will be able to get any overpaid tax refunded (either directly or by a reduced tax bill) as part of the annual tax return process. If you select a PIR that is too low, you will have to pay more tax on your income from a Portfolio at your correct PIR. You can change your PIR at any time by contacting us or your financial adviser.

Inland Revenue may also tell us to change your PIR if they think it is wrong. If they do, we must use the PIR that they tell us, unless you tell us to use a different rate.

Where you partially or fully withdraw from the Scheme or transfer your investment to another scheme, we can deduct from the amount withdrawn or transferred an amount equal to your PIE tax liability as at the date of the withdrawal or transfer. If we do not do this, we can treat you as having a 0% PIR which means you may be required to file a tax return and pay tax on your income from the Scheme.

If the amount of tax on your income is more than the value of your investment, you may have to pay the tax directly to Inland Revenue. If we or the Supervisor pay this tax liability, you must reimburse us or the Supervisor for that amount.

### TAXATION OF EMPLOYER CONTRIBUTIONS

Employer contributions are subject to ESCT. Your employer's contribution will have ESCT deducted at a rate up to 33% based on how much you earn:

| TAXABLE INCOME                | ESCT RATE |
|-------------------------------|-----------|
| Not more than \$16,800        | 10.5%     |
| Between \$16,801 and \$57,600 | 17.5%     |
| Between \$57,601 and \$84,000 | 30.0%     |
| More than \$84,000            | 33.0%     |

## 13. PERSONAL INFORMATION

### PRIVACY

The Privacy Act 1993 (and from 1 December 2020, the Privacy Act 2020) deals with how we collect, store and use the personal information you give us in for your investment in the Scheme.

This information may be used by us (including our related entities) and the Supervisor and shared with and used by your financial adviser and other service providers to the Scheme for the purposes of arranging, managing and administering your investment, contacting you about your investment and providing you with newsletters and information about other products and services.

We may also use and share your personal information in order to comply with New Zealand law or the law of another country, including using it to verify (whether by electronic means or otherwise) your identity.

We may also be required to provide it to government agencies including the FMA and Inland Revenue. You have the right to access and correct personal information held by us.

## **AML/CFT REQUIREMENTS**

Under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, we need to verify your identity and address and, in some cases, the source of your funds and wealth.

If you complete the Application Form with a financial adviser, they may be able to verify both your identity and address using the identification documents and process set out in the Application Form.

If you are completing the Application Form without a financial adviser, the identification documents may be certified by a trusted referee or verified by an NZ Funds employee. More information on certification by 'trusted referees' is included in the Application Form.

If you are completing your application online through our website, we can with your consent, verify your identity and address electronically. If the electronic method fails, we will require physical identification documents certified or verified in the way discussed above.

We cannot process your application unless the AML/CFT requirements have been satisfied.

## **CHANGE OF PERSONAL DETAILS**

If you wish to change your personal details, please complete a Changes in Client Details form. You can get this form from our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz).

## **14. MATERIAL CONTRACTS**

### **TRUST DEED**

The Trust Deed is an agreement between us and the Supervisor that sets out the rules for the management and administration of the Scheme and each Strategy. A copy of the Trust Deed is available on the scheme register at [disclose-register.companiesoffice.govt.nz](http://disclose-register.companiesoffice.govt.nz).

### **MANAGEMENT AGREEMENT**

We have a management agreement with the Supervisor that sets out the operational arrangements for the Scheme, including what information we have to report to the Supervisor, how the Scheme's bank accounts will be operated, and what records we have to keep.

### **DEED OF NOVATION OF ADMINISTRATION AGREEMENT**

We have a deed of novation of administration agreement between us, Aon New Zealand (Aon) and Link Market Services Limited (Link) where Link replaced Aon as the administration manager of the Scheme from 1 November 2016.



## 15. MORE ABOUT MARKET INDICES

More information about the market indices noted in the SIPO can be found on the web pages listed below:

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|   |  |
|---|--|
| S&P/NZX Investment Grade Corporate Bond Index Total Return                  | <a href="http://www.eu.spindices.com/indices/fixed-income/sp-nzx-investment-grade-corporate-bond-index">www.eu.spindices.com/indices/fixed-income/sp-nzx-investment-grade-corporate-bond-index</a> |
| Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD | <a href="http://www.bloomberg.com/quote/LGCPTRUU:IND">www.bloomberg.com/quote/LGCPTRUU:IND</a>   |
| S&P/NZX Bank Bills 90 Day Index Total Return                                | <a href="http://www.us.spindices.com/indices/fixed-income/sp-nzx-bank-bills-90-day-index">www.us.spindices.com/indices/fixed-income/sp-nzx-bank-bills-90-day-index</a>                             |
| S&P/NZX 50 Portfolio Index Gross with Imputation                            | <a href="http://www.us.spindices.com/indices/equity/sp-nzx-50-portfolio-index">www.us.spindices.com/indices/equity/sp-nzx-50-portfolio-index</a>   |
| S&P/ASX Accumulation 200 Index  | <a href="http://www.us.spindices.com/indices/equity/sp-asx-200">www.us.spindices.com/indices/equity/sp-asx-200</a>   |
| MSCI All Countries World Daily TR Net Local Currency                        | <a href="http://www.msci.com/acwi">www.msci.com/acwi</a>   |

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