Westpac Premium Investment Funds

Other Material Information

28 September 2018

BT Funds Management

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Background

This is an important document in relation to your investment in Westpac Premium Investment Funds managed investment scheme (**Premium Investment Funds**). 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 the Premium Investment Funds or who are allotted units in the funds. Where investing through the Westpac Wrap Service or another custodial service any units will be held by the relevant custodian.
- the words "we", "us", and "our" refer to BT Funds Management (NZ) Limited (**BTNZ**), which is the manager (**Manager**) of the Premium Investment Funds.
- 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 Premium Investment Funds under clause 52 of Schedule 4 to the Financial Markets Conduct Regulations 2014 (**FMCR**).

1. Nature of the scheme

Introducing the Premium Investment Funds

In the Premium Investment Funds there are eight managed funds (each a **fund**) for you to invest in[1]. Each fund invests in a single asset class as described in the PDS and the SIPO. The funds are:

- Enhanced Cash Fund
- New Zealand Diversified Bond Fund
- Corporate Bond Fund
- International Diversified Bond Fund
- Australasian Diversified Share Fund
- International Diversified Share Fund
- Property Fund
- Alternative Strategies Fund

The trust deed governing the Premium Investment Funds is available on Disclose.

1 The Premium Investment Funds were formerly known as the BT Private Selection unit trust when registered under the Unit Trusts Act 1960.

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 and any distributions.

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 that 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 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 Sunday or a public holiday in Auckland and Wellington). We apply market standard valuation methods in accordance with the trust deed. Our 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. The basic formulae for the calculation of unit prices are set out in the trust deed for the funds. We generally calculate unit prices each business day.

Any application for units, withdrawal request or switching request accepted before the cut-off time (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.

Our current policy is to calculate unit prices using the forward pricing method (i.e. applications to purchase units or redemptions to sell units are processed using a price generally based on asset values as at the close of business on the day that the application or withdrawal request has been received). 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.

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 error is an error that equals or exceeds 0.30% of the value that would have accumulated without the error. 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, under the trust deed we can adjust the unit value 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.

Distributions

The Corporate Bond Fund makes regular distributions 6-monthly after the end of April and October. No distributions are expected to be made by the other funds. We can alter the distribution periods or make regular distributions from the other funds in the future.

We have the discretion to decide the appropriate level of income (and, if applicable, capital) to be distributed for each distribution period. The amount to be distributed in total for a fund is divided by the number of units on issue for that fund on the last day of the distribution period. This will determine the amount to be distributed for each unit that has been issued in that fund. If you have units in that fund, your entitlement will be determined by multiplying the amount to be distributed per unit by the number of units you have in that fund. Each unit in a fund will receive the same distribution for a particular distribution period regardless of when it was issued.

Prior to a distribution, any accrued income will be reflected in the unit price of the fund. Therefore, after a distribution has been paid, the unit price will generally fall by the value of the amount to be distributed per unit. If you invest just before a distribution, you may receive some of your investment back as income (and the capital value of your unit will have decreased).

Distributions can be paid to the bank account you have previously nominated, or they can be automatically reinvested. If you choose to reinvest your distribution, we will issue units in your name in the same fund on the date that the distribution takes place. You can opt in or out of the automatic reinvestment option.

Distributions will be paid as soon as reasonably practicable following the end of the distribution period (generally within 4 weeks).

The tax treatment of distributions is set out in section 7.

Making investments

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

Further information on how to invest in the Premium Investment Funds is set out in the PDS.

Application moneys are paid into a non-interest bearing bank account upon receipt and applied to the relevant fund(s) in accordance with the trust deed.

We may set a minimum investment amount for any of the funds. If the value of your investment falls below the specified minimum amount, you will be asked to top it up. If you are unable to do this, we can, on giving you 30 days' notice, redeem or repurchase the entire investment and return the proceeds to you.

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.

Investing through a custodial service

Investment in the Premium Investment Funds is available through the Westpac Wrap Service, and may be made available through any other custodial service we approve (together referred to as the **custodial service**).

Investors through a custodial service do not become direct investors in the Premium Investment Funds and do not have a direct relationship with us or the Supervisor. Instead, the custodial service has the direct relationship with us and will be able to exercise any rights attached to units held on the investors' behalf. The investors will have a direct investment relationship with their custodial service.

A custodial service will have an agreement with its investors governing the terms of the custodial arrangement. Any custodial service will have entered into an arrangement with us in respect of the Premium Investment Funds. Any terms and conditions in the PDS may be varied by such an arrangement. Investors should contact their custodial service to find out whether any variations have been agreed between us and the custodial service.

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. If we receive a valid withdrawal request in writing before the cut-off time on a business day, we will generally process it using the withdrawal price applicable to that business day. If the withdrawal request is received at or after the cut-off time, we will generally process it using the withdrawal price applicable to the next business day.

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

Under the trust deed, the withdrawal amount must be paid to you within 30 business days (or in the case of the Alternative Strategies Fund, 3 months) of the date the withdrawal request is received by us. In all cases, the time period may be longer if the nature of the assets makes this necessary, in which case there is no prescribed time limit. This is subject to the restrictions below.

Restrictions on withdrawals

We are able to suspend or delay payment of withdrawals in certain circumstances set out in the trust deed. These circumstances include, for example, where we determine in good faith that it is in the interests of investors affected generally, or, where it is impractical for us to determine the value of a fund or to sell assets.

The maximum suspension period is currently 30 days (or, in the case of the Alternative Strategies Fund, 3 months) 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.

Without limiting our ability to suspend or delay withdrawals as described above, we may, when processing a large withdrawal request, delay the issue of a unit price for applications and withdrawals from a fund until the assets necessary to cover the withdrawal have been sold.

Insolvency/wind-up

We may decide to wind up the Premium Investment Funds or any fund. If we, the Premium Investment Funds, or any fund is liquidated or wound up, any creditor's claims will rank ahead of your claims. Your claims will rank equally with other investors in the relevant fund(s). 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. Transfers must be made in a form approved by us which complies with any applicable laws. A transfer is not effective until registered. We may refuse to register a transfer at our absolute discretion.

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 by law; or
- If the other person has a legal disability (such as bankruptcy or mental incapacity); or
- If registration of the transfer would cause a fund to breach the Portfolio Investment Entity (**PIE**) eligibility requirements; or
- If it would result in the transferee or transferor holding less than the minimum amount.

Closure of your investment

In some circumstances we may need to withdraw 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 the Premium Investment Funds' 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

We and the Supervisor can change any fees within the limits set out in the trust deed. We will give you 30 days' notice of any increase in fees (unless the Supervisor agrees another period). We may introduce at any time any fees provided for in the trust deed that are currently not charged. 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, or our policy around buy/sell spreads. We may also adjust the frequency of unit pricing (e.g. to and from daily, weekly, fortnightly or monthly). We can also close or wind up a fund.

Making changes to the trust deed and SIPO

Together with the Supervisor, we may amend the provisions of the trust deed. Any such changes must be made in accordance with the trust deed.

We may also amend the SIPO for the Premium Investment Funds, including benchmark asset allocations and ranges, the primary investments and a fund's benchmark index and objectives in accordance with the trust deed.

Where required by the trust deed or law, you will be notified of any material changes to the trust deed or the SIPO.

Borrowing powers

At our direction, the Supervisor may borrow or make other funding arrangements on behalf of any fund, provided that the total of such liabilities does not exceed 60% 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 Premium Investment Funds 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 (**Westpac**), ABN 33 007 457 141, an Australian incorporated company. Westpac is listed on the ASX. BTNZ has been a member of the Westpac group of companies (**Westpac Group**) since 31 October 2002.

Investments made in the Premium Investment Funds do not represent bank deposits with or other liabilities of Westpac, 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 Premium Investment Funds. The administration managers are regularly monitored and reviewed.

Trustees Executors Limited

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

MMC Limited

MMC Limited provides fund and investment administration services which include 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 westpac.co.nz and on Disclose.

Changes to underlying investment managers

Underlying investment managers are regularly monitored and reviewed. These managers may be added to 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.

Registrar and Custodian

BTNZ is the Registrar of the Premium Investment Funds and an electronic register is kept at our head office in Auckland.

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

Licensed Supervisor

The Supervisor is The New Zealand Guardian Trust Company Limited. The Supervisor 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.

Supervisor and Manager indemnity

Subject to the limits on permitted indemnities under the FMCA, the Supervisor and the Manager are entitled to be indemnified out of the assets of the Premium Investment Funds for any liability incurred in performing or exercising any of their powers or duties in relation to the Premium Investment Funds to the maximum extent permitted by law. This indemnity does not extend to liabilities arising:

(a) from a breach of trust; or

(b) where the Supervisor or Manager (as applicable) fails to show the degree of care and diligence required having regard to its powers, authorities and discretions under the trust deed.

You indemnify the Supervisor and Manager 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 Premium Investment Funds. The Management Agreement specifies the reporting and information to be provided by us to the Supervisor and the requirements for operating 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

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

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

Supervisor's fee

The Supervisor charges an annual fee in respect of its services performed for the Premium Investment Funds. Under the trust deed, the maximum level of this fee is 0.10% per annum of the value of the assets of the relevant fund.

Expenses

We and the Supervisor are entitled to be reimbursed from a fund for certain expenses (inclusive of GST, if applicable) we incur in respect of that fund, including expenses relating to services provided by an administration manager.

Underlying fund fees

The funds that we choose to invest in may charge management fees. Under our current policy we pay the 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 that may be charged by the investment managers of certain Specialist Funds when specific performance targets are met.

A performance fee 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. The performance fee rate for the relevant investment managers of the Specialist Funds typically ranges from 0-20% of outperformance over the benchmark or its performance hurdle. There is no guarantee that a performance fee will be paid, and the actual fees charged are likely to vary.

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 allocations) of the other fees and expenses expected to be charged by underlying funds (including any performance fees). Those estimates, as at the date of the PDS, are based on:

- historic data of actual fees and expenses of the underlying funds, or
- where no historic data is available, expected levels of fees and expenses of 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 were met.

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

The annual fund charges in the PDS also include an estimate of expenses for each fund.

Actual fund charges, however, will vary from 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.

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.

GST

Goods and Services Tax (**GST**) is not included in any of the stated fees. 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 Premium Investment Funds as summarised below.

Westpac NZ provide banking services to the funds. Westpac NZ also receive fees from BTNZ for 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 any fee so charged will be rebated to the investing fund.

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 as Manager, 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 fairly.
- 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 of managing a conflict of interest is to identify, declare, manage and monitor.

Any 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. 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 principal risks that may produce this result in the table 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.

Type of Risk	Description	Affected Funds	Risk Management
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 and broader events like changes in technology or environmental events.	All funds	We seek to reduce market risk to some extent by diversifying across investment sectors, countries, investment managers and/or investment styles.
Investment manager risk	The allocation of a fund's investments between investment sectors and individual investments will affect returns, as will the performance of the entities underlying the investments. Even though professional investment managers make the investment decisions, the outcomes cannot be predicted with certainty and results will vary.	All funds	To seek to manage this risk we utilise professional investment managers whom we regularly monitor. We select any Specialist Funds and their investment managers according to specific criteria.

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 credit worthiness may decline or they may default on the required payments (reducing returns or meaning not all of the amount invested is recovered).	International Diversified Bond Fund Corporate Bond Fund New Zealand Diversified Bond Fund Enhanced Cash Fund Alternative Strategies Fund	Where appropriate, the investment strategy seeks to incorporate an assessment of creditworthiness and 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 may be used by the funds as an alternative to investing in a physical asset or as a risk management tool. The use of derivatives may also result in leverage. Derivatives may not perform in line with expectations, resulting in unexpected gains or losses and increased volatility.	**More Affected** Alternative Strategies Fund International Diversified Bond Fund Corporate Bond Fund New Zealand Diversified Bond Fund Enhanced Cash Fund **Less Affected** International Diversified Share Fund	To manage this risk, we operate within guidelines concerning the use of derivatives in the funds. For more details, see the SIPO on Disclose.

		Australasian Diversified Share Fund Property Fund	
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 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 (see below).	**More Affected** Alternative Strategies Fund Property Fund Corporate Bond Fund Enhanced Cash Fund **Less Affected** International Diversified Share Fund Australasian Diversified Share Fund New Zealand Diversified Bond Fund International Diversified Bond Fund	The funds and Specialist Funds may adopt concentration limits to manage this risk.

Liquidity risk	There is a risk that particular investments cannot be traded or accurately valued due to market conditions, which may also affect pricing and/or the processing of fund transactions including withdrawals and switches. This may occur because some assets are less liquid than others within a timely period. 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.	**More Affected** Alternative Strategies Fund International Diversified Bond Fund Corporate Bond Fund New Zealand Diversified Bond Fund **Less Affected** International Diversified Share Fund Australasian Diversified Share Fund Property Fund Enhanced Cash Fund	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.
Currency risk	If your investment is held in international assets, a rise in the New Zealand dollar may negatively impact the value of your investment or returns. The funds that invest in international markets are exposed to movements in foreign currencies. Movements in these foreign currencies may have an adverse effect on the domestic value of a fund's	**More Affected** International Diversified Share Fund Australasian Diversified Share Fund	The extent to which we manage this risk in a fund is set out in the currency hedging policy in the SIPO.

	international investments and, therefore, on the value of those investments.	**Less Affected** Alternative Strategies Fund International Diversified Bond Fund Corporate Bond Fund New Zealand Diversified Bond Fund Enhanced Cash Fund Property Fund	
Inflation risk	If your investment is held in cash assets or fixed interest assets, there is a risk that the value of your investment may not keep pace with inflation. This could mean that even though your investments are steadily growing, your money may not have the same buying power in the future as you would expect in today's money.	Enhanced Cash Fund International Diversified Bond Fund Corporate Bond Fund New Zealand Diversified Bond Fund	
Interest rate risk	Changes in interest rates (whether in New Zealand or internationally) can have a negative impact directly or indirectly on your investment value or returns. For example, an increase in interest rates will negatively impact the value of fixed interest assets.	**More Affected** International Diversified Bond Fund Corporate Bond Fund	

		New Zealand Diversified Bond Fund Enhanced Cash Fund Alternative Strategies Fund **Less Affected** Property Fund International Diversified Share Fund Australasian Diversified Share Fund	

Alternative Strategies Fund

Due to the strategies employed, many of the general risks described above (for example, liquidity and derivatives risk) apply to a greater extent to the Alternative Strategies Fund. In addition, the underlying assets of this fund have greater exposure to higher risk investment strategies, such as short selling. Short selling involves the sale of a security not owned in the expectation of purchasing it at a later date for a lower price. Short selling usually involves a higher level of risk as the potential loss is not limited to the purchase amount.

Additional risks

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 ranges, underlying investment managers and administration managers, adding to, closing or winding up the funds, and changing the fees and charges or minimum amounts. Any material changes will be made after consultation with the Supervisor or notice to the Supervisor.

- **contractor risk** - a third party may fail to properly provide services 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 the Premium Investment Funds 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 Premium Investment Funds may lose its PIE status. In that case, the Premium Investment Funds 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 Premium Investment Funds, and have a number of powers available to us to proactively manage this risk. You may incur a tax liability (plus any interest and penalties) as a result of advising the wrong Prescribed Investor Rate (**PIR**) or failing to advise us when your PIR increases (except where an increase is due to a change in the statutory tax rates rather than a change in your income).

7. Taxation

The Premium Investment Funds is a multi-rate PIE for tax purposes.

This means that the taxable income of the Premium Investment Funds will be attributed to investors in proportion to the units held in the respective funds and that taxable income attributed to you will be taxed within the Premium Investment Funds at the PIR you provide or the default rate. Information on current PIRs and how to determine your PIR can be found at ird.govt.nz/toii/pir/workout/.

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 PIE tax refund, 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 Premium Investment Funds' income year. However, if you withdraw, switch, or transfer units during the year, then we'll make tax adjustments at that time.

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 you own independent professional advice as to your particular tax position.

The Premium Investment Funds 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 the Premium Investment Funds 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 eligibility for PIE status.

You are not subject to tax on any distributions from the funds.

Where units are held through the custodial service, the custodial service is a proxy for the 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.

It is your responsibility to tell the custodial service your PIR when you invest in a fund or if your PIR changes. If you do not tell the custodial service, a default rate will be applied.

8. Additional information on returns for the funds

Information for Wrap investors

Investors in the Westpac Wrap Service will receive reports, portfolio information and other documentation directly from Westpac NZ and the custodian of the Westpac Wrap Service.

Fund returns on Disclose

The historical returns provided on Disclose are calculated before tax and net of all fund charges as required under the FMCA. Prior to July 2004, the returns for the funds were calculated on a different basis and are therefore not comparable to those on Disclose. For information on the historical returns of the funds prior to July 2004, please contact us.

Returns for the Corporate Bond Fund and the New Zealand Diversified Bond Fund

Corporate Bond Fund: On 14 August 2012 BTNZ (in its own capacity) purchased certain notes from the Corporate Bond Fund at their book value. The purchase followed a decline in the notes' asset backing which contributed to uncertainty as to the notes' value. BTNZ concluded that the notes were no longer a suitable investment for the fund and that they should be sold. On 27 February 2013, the notes were given a zero value in BTNZ's financial statements to 30 September 2012. This determination indicates that the transaction may have had a positive effect on the fund's performance in periods which include August 2012. If the notes had been retained and a zero value was attributed to them on 14 August 2012, the funds returns (after deductions for charges but before tax) in August 2012 would have been 7.1% lower (returns after deductions for charges and tax at the highest prescribed investor rate would have been 5.1% lower). The fund's stated returns for periods which include August 2012 would also be affected.

New Zealand Diversified Bond Fund: As at 14 August 2012, certain of the New Zealand Diversified Bond Fund's assets were invested in the Corporate Bond Fund. On 14 August

2012 BTNZ (in its own capacity) purchased certain notes from the Corporate Bond Fund at their book value. The purchase followed a decline in the notes' asset backing which contributed to uncertainty as to the notes' value. BTNZ concluded that the notes were no longer a suitable investment for the fund and that they should be sold. On 27 February 2013, the notes were given a zero value in BTNZ's financial statements to 30 September 2012. This determination indicates that the transaction may have had a positive effect on the fund's performance in periods which include August 2012. If the notes had been retained by the Corporate Bond Fund and a zero value was attributed to them on 14 August 2012, it is estimated that the New Zealand Diversified Bond Fund's returns (after deductions for charges but before tax) in August 2012 would have been 2.75% lower (returns after deductions for charges and tax at the highest prescribed investor rate would have been 2.0% lower). The New Zealand Diversified Bond Fund's stated returns for periods which include August 2012 would also be affected.