

# SMARTSHARES EXCHANGE TRADED FUNDS – OTHER MATERIAL INFORMATION

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Smartshares Limited (**Smartshares**) has prepared this document to meet the requirements of section 57(1)(b)(ii) of the Financial Markets Conduct Act 2013 and clauses 52 and 53(1) of schedule 4 of the Financial Markets Conduct Regulations 2014.

This document supplements the Product Disclosure Statements for the Smartshares Exchange Traded Funds (**Scheme**) and sets out important information about the Scheme.

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

## 1. Risks

This section sets out a summary of the risks that we believe to be the most important, but there may be other risks that are relevant to your investment in the Scheme. You should seek advice from a financial adviser before investing in the Scheme.

### A. Risks described in the Product Disclosure Statements

We consider that the risks set out below could be material to your investment. These risks are summarised in the Product Disclosure Statements for the Scheme.

#### General investment risks

##### *Market risk*

Market risk is the risk that there is a decline in the value of a market, or a sector of a market (such as a particular industry), which negatively affects the value of the financial products held by the Scheme, or the amount or frequency of distributions we receive from the issuers of those financial products.

Market risk can change for many reasons, including changes in investor confidence or perceptions of a market, changes in economic conditions, government regulations, natural disasters, and local and international political events.

##### *Individual financial product risk*

Individual financial product risk is the risk that a specific issuer is affected by adverse circumstances which causes a decline in the value of its financial products which are held by the Scheme, or the issuer's ability to pay distributions in relation to those financial products.

##### *Liquidity risk*

Liquidity risk is the risk that, due to market demand and supply factors, we are unable to buy or sell financial products for the Scheme in a timely manner or at fair value. Liquidity risk may negatively impact the value of the Scheme's investments, which could prevent the funds from meeting their investment objectives.

##### *Currency risk*

Currency risk is the risk that a change in exchange rates causes a reduction in value of certain investments held by the Scheme. The value of international investments (including those held by the Scheme) will fall if the New Zealand dollar increases against the currency in which international investments are denominated.

Currency risk can occur when we apply New Zealand dollars to acquire foreign currency denominated financial products and then convert the value of those investments back into New Zealand currency. In addition, as some funds receive foreign currency denominated distributions, these will be exposed to currency risk based on movements in the exchange rate between the foreign currency and New Zealand dollar.



Currency risk is only relevant for the funds that invest in international assets. The investment manager for the Global Bond Fund mitigates currency risk by hedging into New Zealand dollars. We do not currently hedge currency exposures in any other funds to mitigate currency risk.

#### *Credit risk*

Credit risk is the risk that issuers of cash and cash equivalents, and New Zealand and international fixed interest assets do not pay interest and/or capital repayments when these are due.

Credit risk is only relevant for the NZ Cash Fund, NZ Bond Fund and Global Bond Fund.

#### *Interest rate risk*

Interest rate risk is the risk that interest rates rise and the value of investments (in particular, cash and cash equivalents, and New Zealand and international fixed interest assets) reduce. Generally, as interest rates rise, the market value of cash and cash equivalents, and New Zealand and international fixed interest assets tends to decrease, and vice versa. If interest rates rise, cash and cash equivalents, and New Zealand and international fixed interest assets will become less valuable as higher alternative interest rate products become available in the market.

In addition, for the funds that hold financial products that have floating interest rates, floating interest rates can change due to general market conditions or conditions specific to a particular industry sector or issuer. Any such changes could affect future returns from such products.

Interest rate risk is only relevant for the NZ Cash Fund, NZ Bond Fund and Global Bond Fund.

### **Other specific risks**

#### *Tracking difference risk*

Tracking difference risk is the risk that a fund that is designed to track the return of an index (or track an underlying fund which in turn tracks the return of an index) achieves a return that is less than the return of the relevant index or underlying fund.

For the funds we manage, the weighting of each of the financial products included in the index may change and we may not be able to exactly match that change by buying and selling financial products because the prices we pay and receive for the financial products may not exactly match the prices used to adjust the index. Taxes, fees and costs, operational errors and the amount held in cash by a fund leading to a distribution period may also result in tracking difference.

In relation to our funds that are designed to track the return of an underlying fund, the underlying fund manager may not be able to exactly track the return of the relevant index for similar reasons to those set out above.

In addition, the underlying fund manager may use index sampling. Index sampling is where the underlying fund manager invests in a representative sample of an index that resembles the key risk factors and other characteristics of that index, with the intention of creating an equivalent return to the index the underlying fund is seeking to track. Where index sampling is used, there is an additional risk that the methods used by the underlying fund manager to select financial products are not successful in providing the same investment performance as the relevant underlying index.

You are likely to face similar issues to those faced by us, were you to try and track an index or an underlying fund yourself.



### *Active management risk*

Active management risk is the risk that an investment manager who makes active investment decisions achieves a return that is lower than the investment objective for the fund. In particular, there is no guarantee that our investment managers will achieve the investment objectives for the fund or provide a certain level of return.

Active investment management is a challenging business and most managers underperform over some periods. We choose appropriately qualified investment managers to mitigate this risk.

Active management risk is only relevant for the NZ Cash Fund, NZ Bond Fund and Global Bond Fund.

## **B. Risks not described in the Product Disclosure Statements**

You should also be aware of the risks set out below which are not described in the Product Disclosure Statements for the Scheme.

### *Distribution risk*

Distribution risk is the risk that distributions paid by the fund disappoint you. The distributions we make depend, largely, on the distributions we receive from the financial products held by our funds, which may not meet your expectations.

### *Operational risk*

Operational risk is the risk that operational errors, including business interruptions arising through key personnel changes, human error, technology or infrastructure failure, and other external events, fraud or misconduct, may adversely impact on the operation and performance of the Scheme or a fund within the Scheme. We mitigate this risk through internal policies, procedures and controls, including a compliance programme. We also outsource some aspects of our operations to third-party providers and maintain insurance, subject to normal commercial insurance excesses.

### *Concentration risk*

Concentration risk is the risk that a fund's investments are concentrated in a particular country, market, sector, asset class, or asset which may result in the fund being impacted by adverse events affecting a specific country, market, sector, asset class or asset.

### *Trading risk*

Trading risk is the risk that you cannot buy or sell units in the funds on the NZX Main Board, or that the market price for your units may be less than a unit's net tangible asset value. These circumstances could arise due to an imbalance of demand and supply for units in the funds. In order to mitigate this risk, we have arrangements with an NZX Participant to act as a market maker for our funds, to provide additional liquidity for on-market trading. There is a risk that, if the market maker were to default in relation to its obligations, or for any reason cease to continue to provide market making services, it could be more difficult for you to sell your units on-market.

In addition, each fund is quoted on the NZX Main Board and there is a risk that the NZX may, in certain circumstances, suspend trading, or even remove a fund from quotation on the NZX. The underlying investments held by a fund may also be suspended or delisted.

### *Third party risk*

The Scheme relies on a number of outsource providers to provide services. The failure of a service provider to deliver such services (because of business interruption, external factors or otherwise) may adversely affect the operation and performance of the Scheme. We mitigate this



risk through an outsource provider policy which requires us to conduct due diligence in relation to the selection of outsource providers and to monitor their performance on an on-going basis.

#### *Regulatory and legal risk*

Regulatory risk is the risk that the Scheme or its investments may be adversely affected by future changes in applicable laws, an incorrect interpretation of laws or regulations, or by decisions taken by regulatory enforcement agencies. Legal risk is the risk that we do not correctly document or comply with our legal obligations.

#### *Underlying funds risk*

There is a risk that the investment performance of a fund that invests in an underlying fund, is affected by the ability of the underlying fund to track the return of the relevant index. We do not have control or direct oversight over the functions or performance of the underlying fund's manager and the underlying fund's manager has no direct legal obligations to you.

#### *Financial product lending risk*

Financial product lending risk is the risk that the entity that borrowed financial products from a fund may become insolvent or otherwise become unable to meet, or refuse to honour, its obligations to return the borrowed assets to the fund.

We only conduct loans through the New Zealand Clearing and Depository Corporation Limited (NZCDC) designated settlement system. Financial product lending risk is managed through the prudential and regulatory oversight arrangements that apply to the settlement system operator which ensures the settlement system operator collects collateral from the borrower. We can seek compensation from the settlement system operator in the event a borrower defaults. The NZ Markets Disciplinary Tribunal would determine whether compensation was payable.

We do not loan more than 50% of the total financial products in a fund, or 50% of the aggregate value of any class of financial products that are held by a fund.

#### *Tax risk*

There is a risk that tax laws that apply to your units, or the application, or interpretation of those laws could have an adverse effect on your returns or the value of your units.

In particular, there is a PIE tax status risk, which is the risk that a fund may lose its portfolio investment entity (**PIE**) status, which would likely affect the after-tax returns that you receive. We mitigate this risk by implementing processes that are designed to ensure that our funds comply with the PIE requirements.

#### *Derivatives risk*

Derivatives are contracts between two parties that usually derive their value from the value of an underlying asset, rate or index. Derivatives may be used by the Global Bond Fund to gain, reduce, or modify exposure to a foreign currency, interest rates or credit. The use of such products to gain exposure is often a leveraged investment, and may cause the Global Bond Fund to incur significant gains or losses in proportion to the value of the investment, thereby causing the fund returns to become more volatile and increasing the risk of any loss. We mitigate this risk by setting mandates which materially constrain the ability for the Global Bond Fund to be leveraged.

## **2. Tax**

This section sets out further information about the taxes you will pay when investing in the Scheme. It should be read together with the Product Disclosure Statements for the Scheme.



## A. Taxation disclosure

The following comments are intended to be only a general summary and indication of the relevant New Zealand tax consequences which affect each fund in the Scheme or the Investors. There may be various non-New Zealand tax consequences which affect each fund in the Scheme or the Investors that are not addressed here.

Neither Public Trust nor Smartshares accepts any responsibility for the taxation consequences of an investment in the Scheme. Investors who buy or sell units may have different taxation positions. Consequently, each investor should consider their own taxation position and if necessary seek professional advice before investing in the Scheme. Taxation may affect the returns of the fund you invest in and each of the funds may have varying tax implications.

The taxation summary below is based on applicable legislation and its interpretation as at the date of this entry on the disclose register.

## B. New Zealand tax considerations

### *Taxation of investments of each fund*

Each fund is a listed Portfolio Investment Entities (**PIEs**). As listed PIEs each fund will pay tax on taxable income derived or deemed to be derived by the funds at a rate of 28%.

As each fund pays tax on their taxable income, if the rate of tax payable by a fund is higher than your marginal rate, you will not get a refund of any of the tax paid by the applicable fund. However, if you are currently paying tax at a rate less than 28% then the excess tax paid by a fund can be used to reduce the tax payable on other income that you derive at the end of each income year by including the distributions from the fund(s) (including any bonus issues of new units) in your tax return.

The funds are not subject to tax on gains that they derive from the sale of shares in most New Zealand resident companies and most companies resident in Australia that are listed under the ASX market rules. Dividends from such shares are usually fully taxable to the funds, with a credit allowed for any imputation credits attached (but not for any Australian franking credits), and any withholding tax deducted from such dividends subject to certain limits.

Depending on the equities which constitute the index that the relevant fund tracks, the fund may be subject to tax in respect of offshore portfolio equity investments. These rules only apply to non-New Zealand and certain Australian quoted securities (including any NZX listed securities consisting of shares in non-New Zealand tax resident entities). In relation to the applicable equities, the funds will apply the “fair dividend rate” (**FDR**) method to calculate the amount of any taxable income. Under the FDR method, the funds will generally have taxable income in each income year (1 April to 31 March) in relation to the applicable equities calculated by reference to 5% of the average daily opening market value of the applicable equities. Dividends or sales proceeds received by the funds in relation to the applicable equities should not be subject to further tax. The funds may be entitled to a credit for any foreign withholding tax paid on dividends received from the applicable equities subject to certain limits. No tax deduction may be claimed for any losses in respect of the applicable equities under the FDR method.

In respect of investments that are bonds or other investments that are treated as financial arrangements under the Income Tax Act, the fund will pay tax on any interest income that they derive from such investments. The fund will also pay tax on any amount deemed to be income under the Income Tax Act (including potentially changes in the value of such investments, gains from the disposal or redemption of such investments and realised or unrealised foreign exchange gains in relation to foreign currency denominated bonds). The timing at which the fund will pay tax on their income can differ depending on the nature of the relevant investment.



In some cases, a fund may be required to pay tax on income even if such income has not been paid or credited to the fund. On the other hand, if the fund incurs foreign exchange losses or losses from disposal or redemption of these investments, they will be able to claim a deduction for such losses.

#### *Taxation of distributions to resident investor*

This sub-section summarises the New Zealand taxation of distributions made by the funds to investors who are resident in New Zealand for New Zealand income tax purposes.

To the extent that imputation credits are available, the funds will fully impute distributions to resident investors by attaching imputation credits to the distribution at the maximum permitted ratio.

To the extent that distributions are not imputed, resident investors will not be taxed on distributions that they receive from the funds. The effect of this is that non-taxable income (e.g. capital gains from the sale of investments) derived by the funds can be distributed to resident investors free from tax.

Natural person resident Investors and trustee resident Investors (other than a trustee of a unit trust) subject to a tax rate below the corporate tax rate (currently at 28%) may choose to treat distributions (including any bonus issues of new units) that are fully imputed as assessable income by including that amount in their tax return. This allows such investors to use imputation credits attached to distributions in excess of what is necessary to fully satisfy the income tax liability in relation to those distributions, to offset against their other taxable income.

How resident investors should treat distributions from the funds for tax purposes will depend on their personal tax circumstances and as such it is recommended that all investors should seek independent tax advice.

#### *Taxation of distributions to non-resident investors*

This sub-section summarises the New Zealand taxation of distributions made by the funds to investors who are not resident in New Zealand for New Zealand income tax purposes.

To the extent that imputation credits are available, distributions to non-resident investors will be fully imputed. Non-resident withholding tax (**NRWT**) will be withheld at 15% from distributions which are fully imputed. The NRWT rate on fully imputed distributions can be reduced:

- to 0% if the non-resident investor holds 10% or more of the units in a fund; or
- to a rate below 15% if the non-resident investor is resident in a jurisdiction with which New Zealand has a double tax agreement that permits a lower tax rate.

New Zealand also has a foreign investor tax credit regime whereby the impact of NRWT on dividends is reduced by the payment of a supplementary dividend for non-resident investors who hold less than 10% of the units in a fund and if the NRWT rate is 15% or more. The funds intend to pay supplementary dividends to non-resident investors wherever possible, provided that such payment meets the trust deed requirements and does not disadvantage other investors.

To the extent distributions are not fully imputed, non-resident investors will not be taxed on such distributions and no NRWT will be withheld by the funds.

#### *Disposal of units in the funds*

The New Zealand tax treatment of profits realised or losses incurred on the disposal of units will depend upon the tax position of the investor.





Generally speaking, profits from the disposal of units will be subject to tax or a deduction will be allowed for losses incurred if:

- the investor acquired the units for the purpose of sale or other disposal; or
- the investor carries on a business involving dealing in the units or other similar property; or
- the disposal of the units occurs as an act done in the carrying on of a profit-making scheme or undertaking.

As a general comment, PIEs that invest in a fund should not be subject to tax on any gains made on the disposal of units in the fund, and other investors which are resident in a country with which New Zealand has a double tax agreement may qualify for tax relief so that they are also not subject to tax on any gains made on the disposal of units in the fund.

#### *Basket Investments (certain funds only)*

For those funds which allow units to be acquired by way of basket creation, contributing securities in exchange for units will constitute a realisation of the securities for tax purposes for those investors. The tax status of some investors may be such that they are liable for tax on profits derived from the disposal of index securities.

### **C. Australian tax considerations**

As the Australian Top 20 Fund, Australian Mid Cap Fund, Australian Dividend Fund, Australian Financials Fund, Australian Property Fund and Australian Resources Fund do not have a permanent establishment in Australia and will not hold at any time 10% or more of the issued shares in any index issuer, those funds will not be subject to Australian income tax in respect of any gains made on disposal.

Where fully franked dividends are paid by Australian resident companies to those funds, no Australian tax should be withheld at source in Australia.

Where unfranked or partially franked dividends are paid by Australian resident companies to those funds, it is likely that Australian tax will be withheld at source in Australia in relation to the unfranked portion of the dividend. Where the applicable fund holds less than a 10% interest in each company that they invest in, the rate of Australian withholding tax on unfranked dividends should be 15%. Any such unfranked dividends would be paid to the relevant fund net of any withholding tax paid to the Australian tax authorities.

The funds should not be liable for stamp duty in Australia in relation to the acquisition of shares in Australian companies that are listed on the ASX because the acquisition of securities in a listed company is not dutiable, unless the interests acquired are more than 90% of the issued securities in that company and that company is a land holder. In that case, landholder duty may apply.

Any stamp duty on the acquisition or disposal of securities upon the issue or redemption of Units will be passed onto and be the liability of the holder. The terms of issue of Units require the holder or prospective holder to meet any such cost to the relevant fund.

### **D. US tax considerations**

Distributions received by the Emerging Markets Fund, Europe Fund, Total World Fund, US 500 Fund, US Large Growth Fund, US Large Value Fund, US Mid Cap Fund, US Small Cap Fund and Global Bond Fund from the underlying fund may be subject to US withholding tax. Smartshares will manage the completion of a W8-BEN-E form for each fund in order to benefit from the reduced withholding tax rate available under the double tax agreement between New



Zealand and the US (which, as at the date of this document, is 15%). The relevant fund may be entitled to a credit for any withholding tax paid on distributions received from the relevant underlying fund subject to certain limits.

No credit will be available to the funds in respect of taxes withheld at source on distributions received by the underlying fund.

US capital gains tax is not expected to apply in respect of any gains derived by the funds on the disposal of units in the underlying fund on the basis that the funds will not have a permanent establishment in the US and should therefore be treated as 'non-resident' for US tax purposes.

### **3. Material contracts**

This section sets out the contracts that we consider to be material in relation to the Scheme.

#### *Administration Services Agreement – BNP Paribas*

There is an Administration Services Agreement between Smartshares and BNP Paribas Fund Services Australasia Pty Limited (**BNP Paribas**).

BNP Paribas is the Scheme's administration manager.

The Administration Services Agreement sets out the administration services that BNP Paribas has agreed to provide Smartshares, together with the performance standards BNP Paribas must comply with in providing the services.

#### *Administration Services Agreement – NZX*

There is an Administration Services Agreement between Smartshares and NZX Limited (**NZX**).

NZX is Smartshares' parent company.

The Administration Services Agreement sets out the administration services that NZX has agreed to provide Smartshares, together with the performance standards NZX must comply with in providing the services.

#### *Investment Management Agreement – Nikko*

There is an Investment Management Agreement between Smartshares and Nikko Asset Management New Zealand Limited (**Nikko**).

Nikko is the investment manager for the NZ Cash Fund and NZ Bond Fund.

The Investment Management Agreement sets out Nikko's duties and investment mandate, together with the investment guidelines for the NZ Cash Fund and the NZ Bond Fund.

#### *Investment Management Agreement – PIMCO*

There is an Investment Management Agreement between Smartshares and PIMCO Australia Pty Ltd (**PIMCO**).

PIMCO is the investment manager for the Global Bond Fund.

The Investment Management Agreement sets out PIMCO's duties, together with the investment objectives and instructions for the Global Bond Fund.

#### *Manager Reporting Agreement*

There is a Manager Reporting Agreement between Smartshares and Public Trust.

Public Trust is the Scheme's supervisor.



The Manager Reporting Agreement sets out the arrangements between Smartshares and Public Trust in relation to certain reporting and other operational matters (including disclosure documents and the operation of bank accounts) relating to the Scheme.

#### *Master Trust Deed*

The Scheme is governed by the Master Trust Deed between Smartshares and Public Trust. A copy of the Master Trust Deed is available on the scheme register at [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz).

#### *Registry Customer Agreement*

There is a Registry Customer Agreement between Smartshares and Link Market Services Limited (**Link**).

Link is the Scheme's unit registrar.

The Registry Customer Agreement sets out the registry services that Link has agreed to provide Smartshares, together with the performance standards Link must comply with in providing the services.

## **4. Market indices**

The schedule to this document sets out where further information about the market indices referred to in the fund updates and Statement of Investment Policy and Objectives for the Scheme may be obtained.

The returns for indices that measure the performance of New Zealand equities are calculated on a net total return basis. Regular cash dividends are reinvested at the close on the ex-dividend date, after the deduction of applicable imputation credits and withholding taxes.

The returns for indices that measure the performance of international equities are calculated on a net total return basis. Regular cash dividends are reinvested at the close on the ex-dividend date, after the deduction of applicable withholding taxes for a non-resident investor.

The returns for indices that measure the performance of cash and cash equivalents, and New Zealand and international fixed interest, are calculated by aggregating the interest return, reflecting the return due to paid and accrued interest, and price return, reflecting the gains or losses due to changes in the end-of-day price and principal repayments.

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## **5. Conflicts of interest**

This section sets out the conflicts of interest that currently exist or are likely to arise in the future in respect of the Scheme. In particular, it sets out:

- the nature of the conflict of interest;



- the funds that are or may be affected by the conflict of interest;
- the circumstances in which, and how, the conflict of interest would, or could reasonably be expected to, materially influence the investment decisions of Smartshares or the investment manager (or both) in respect of the Scheme; and
- the measures that have been, or will be, taken to manage the conflict of interest.

Nature of the conflict	Funds affected by the conflict	How the conflict materially influences investment decisions and the measures taken to manage the conflict
<p>Smartshares carries out financial product lending through the NZCDC Settlement System. The NZCDC Settlement System is operated by NZX Group companies.</p>	<p>NZ Top 10 Fund            NZ Top 50 Fund            NZ Mid Cap Fund            NZ Dividend Fund</p>	<p>Smartshares may be influenced to enter into arrangements that are advantageous to the NZX Group.</p> <p>Smartshares' arrangements in respect of the NZCDC Settlement System are on arm's length terms and governed by the standard Clearing and Settlement Rules and Depository Rules. The arrangements have also been approved as being on arm's length terms in accordance with Smartshares' Related Party Transactions Policy.</p>
<p>Nikko is the investment manager for the NZ Cash Fund and NZ Bond Fund. Nikko may invest in managed investment schemes managed by a member of the Nikko Group.</p>	<p>NZ Cash Fund            NZ Bond Fund</p>	<p>Nikko may be influenced by its association with other Nikko Group companies to prefer managed investment schemes operated by related parties over those operated by independent third parties. Smartshares assesses Nikko's arrangements to identify and manage conflicts of interest at least annually.</p> <p>Smartshares reviews the NZ Cash Fund's and NZ Bond Fund's mix of investments each month. As part of that process, Smartshares assesses each fund's investments in managed investment schemes managed by Nikko Group companies (if any).</p> <p>Nikko's appointment as investment manager has been approved as being on arm's length terms in accordance with Smartshares' Related Party Transactions Policy.</p>



<p>PIMCO is the investment manager for the Global Bond Fund. PIMCO may invest in managed investment schemes managed by a member of the PIMCO Group.</p>	<p>Global Bond Fund</p>	<p>PIMCO may be influenced by its association with other PIMCO Group companies to prefer managed investment schemes operated by related parties over those operated by independent third parties. Smartshares assesses PIMCO's arrangements to identify and manage conflicts of interest at least annually.</p> <p>Smartshares reviews the Global Bond Fund's mix of investments each month. As part of that process, Smartshares assesses the fund's investments in managed investment schemes managed by PIMCO Group companies (if any).</p> <p>PIMCO's appointment as investment manager has been approved as being on arm's length terms in accordance with Smartshares' Related Party Transactions Policy.</p>
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## 6. Trade allocation policy

This section sets out Smartshares' trade allocation practices for the Scheme.

Where Smartshares buys or sells financial products for two or more funds on the same day, Smartshares will allocate trades in the best interests of investors, applying the following principles:

- all proposed trades must be pre-allocated;
- actual allocation must follow the pre-trade allocation;
- in the event that a trade is not fully allocated, actual allocation must be pro-rated based on the pre-trade allocation; and
- no fund will receive preferential allocation treatment over another.

The only exception to the principles set out above is where the size of the order for one of the funds is relatively minor, in which case the order for the fund wanting to buy or sell the minor amount of financial products will be met in preference to the other orders.

Where an investment manager appointed by Smartshares buys or sells financial products for two or more funds on the same day, the investment manager is responsible for trade allocation. Smartshares will consider an investment manager's trade allocation policy prior to appointing an investment manager and at least annually after that.

## 7. Trade execution policy

This section sets out Smartshares' trade execution practices for the Scheme.

Smartshares uses a broker to execute trades. Where Smartshares buys or sells financial products for a fund, Smartshares will select the broker to execute the trade based on what is cost effective for the fund and the broker's expertise.

Where an investment manager appointed by Smartshares buys or sells financial products for a fund, the investment manager is responsible for trade execution. Smartshares will consider an



investment manager's trade execution policy prior to appointing an investment manager and at least annually after that.

## **8. Voting policy**

This section sets out how Smartshares exercises its voting power in respect of assets held by the Scheme.

Where Smartshares makes investment decisions for a fund, Smartshares will generally not vote in respect of the assets held by the fund. However, Smartshares may vote when it considers that not voting will have a material adverse effect on investors (taking into consideration the size of the managed investment scheme's exposure to the issuer and the proportion of the issuer held by managed investment schemes managed by Smartshares).

When Smartshares votes, it will do so in what it considers to be the best interest of investors.

Where an investment manager appointed by Smartshares makes investment decisions for a fund, the investment manager is responsible for voting in respect of the assets held by the fund. Smartshares will consider an investment manager's voting policy prior to appointing the investment manager and at least annually after that. In limited circumstances, Smartshares may direct an investment manager as to how to vote and may also restrict the investment manager from voting.

## **9. Asset valuation and pricing methodology**

This section describes the asset valuation and unit pricing methodology applied to the Scheme.

The value of the assets held by the Scheme and the net asset value of each fund will be determined in accordance with the Scheme's governing documents and on a consistently applied basis.

### **A. Asset valuation**

The assets held by each fund that are quoted on a financial product market are valued for each business day based on:

- the last quoted sale price on the day for which the valuation is being made; or
- if no sale price was quoted for that day, the last bid or buying price on that day; or
- at the option of Smartshares, the amount certified by a firm of stockbrokers or other dealers in the relevant market.

Smartshares may use alternative valuation methods (including for assets that are quoted on a financial product market), provided the valuation method used is applied on a consistent basis over time. Smartshares must consult with the Scheme's supervisor prior to using an alternative valuation method.

### **B. Unit pricing**

The unit price for each fund is calculated for each business day by dividing the net asset value of the fund by the number of units then on issue in that fund.

The net asset value of each fund is determined for each business day using the formula set out in the Scheme's governing documents.

Unit prices are rounded down to four decimal places.



The unit price and number of units on issue for each fund are generally announced at [www.nzx.com](http://www.nzx.com), and are based on information for the previous business day.

Please note that the price an investor may receive when selling units in a fund on market may differ from the unit price.

## **10. Basket contribution/Institutional investor contribution/Basket withdrawal/Institutional investor withdrawal**

This section sets out the minimum contribution amount for a basket contribution/institutional investor contribution, and the minimum withdrawal amount for a basket withdrawal/institutional investor withdrawal.

A basket contribution is where an institutional investor exchanges the equivalent amount of financial products held by a fund, together with a cash amount representing any applicable income held in the fund, for units in the fund.

An institutional investor contribution is where an institutional investor exchanges a cash amount for units.

A basket withdrawal is where an institutional investor exchanges units in a fund for the equivalent amount of financial products held by the fund, together with a cash amount representing any applicable income held in the fund.

An institutional investor withdrawal is where an institutional investor exchanges units for a cash amount.

<b>Fund</b>	<b>Minimum amount</b>
<b>SmartLARGE</b>	
NZ Top 10 Fund (TNZ)	500,000 units
NZ Top 50 Fund (FNZ)	200,000 units
Australian Top 20 Fund (OZY)	150,000 units
Asia Pacific Fund (APA)	50,000 units
Emerging Markets Fund (EMF)	50,000 units
Europe Fund (EUF)	50,000 units
Total World Fund (TWF)	50,000 units
US 500 Fund (USF)	50,000 units
US Large Growth Fund (USG)	50,000 units
US Large Value Fund (USV)	50,000 units





<b>SmartMEDIUM</b>	
NZ Mid Cap Fund (MDZ)	200,000 units
Australian Mid Cap Fund (MZY)	150,000 units
US Mid Cap Fund (USM)	50,000 units
<b>SmartSMALL</b>	
US Small Cap Fund (USS)	50,000 units
<b>SmartDIVIDEND</b>	
NZ Dividend Fund (DIV)	250,000 units
Australian Dividend Fund (ASD)	250,000 units
<b>SmartINCOME</b>	
NZ Cash Fund (NZC)	250,000 units
NZ Bond Fund (NZB)	250,000 units
Global Bond Fund (GBF)	250,000 units
<b>SmartSECTOR</b>	
NZ Property Fund (NPF)	250,000 units
Australian Financials Fund (ASF)	50,000 units
Australian Property Fund (ASP)	250,000 units
Australian Resources Fund (ASR)	150,000 units
<b>BlackRock Series</b>	
Smartshares Automation and Robotics ETF (RBT)	10,000 units
Smartshares Emerging Markets Equities ESG ETF (ESE)	10,000 units
Smartshares Europe Equities ESG ETF (ESEU)	10,000 units
Smartshares Global Aggregate Bond ETF (AGG)	10,000 units



Smartshares Global Equities ESG ETF (ESG)	10,000 units
Smartshares Healthcare Innovation ETF (HCI)	10,000 units
Smartshares Japan Equities ESG ETF (ESJ)	10,000 units
Smartshares US Equities ESG ETF (ESUS)	10,000 units



## Schedule – Market indices information

Fund	Index	More information	Date the index became the market index for the fund
<b>SmartLARGE</b>			
NZ Top 10 Fund	S&P/NZX 10 Index	<a href="http://us.spindices.com/indices/equity/sp-nzx-10-index">http://us.spindices.com/indices/equity/sp-nzx-10-index</a>	9 November 2016
NZ Top 50 Fund	S&P/NZX 50 Portfolio Index	<a href="http://us.spindices.com/indices/equity/sp-nzx-50-portfolio-index">http://us.spindices.com/indices/equity/sp-nzx-50-portfolio-index</a>	9 November 2016
Australian Top 20 Fund	S&P/ASX 20 Index (converted to the New Zealand dollar)	<a href="http://us.spindices.com/indices/equity/sp-asx-20">http://us.spindices.com/indices/equity/sp-asx-20</a>	9 November 2016
Asia Pacific Fund	FTSE Developed Asia Pacific All Cap Index (converted to the New Zealand dollar)	<a href="http://www.ftse.com/Vanguard/Home/Indices">http://www.ftse.com/Vanguard/Home/Indices</a>	10 July 2015
Emerging Markets Fund	FTSE Emerging Markets All Cap China A Inclusion Index (converted to the New Zealand dollar)	<a href="http://www.ftse.com/Vanguard/Home/Indices">http://www.ftse.com/Vanguard/Home/Indices</a>	11 April 2017
Europe Fund	FTSE Developed Europe All Cap Index (converted to the New Zealand dollar)	<a href="http://www.ftse.com/Vanguard/Home/Indices">http://www.ftse.com/Vanguard/Home/Indices</a>	10 July 2015



Total World Fund	FTSE Global All Cap Index (converted to the New Zealand dollar)	<a href="http://www.ftse.com/Vanguard/Home/Indices">http://www.ftse.com/Vanguard/Home/Indices</a>	10 July 2015
US 500 Fund	S&P 500 Index (converted to the New Zealand dollar)	<a href="http://us.spindices.com/indices/equity/sp-500">http://us.spindices.com/indices/equity/sp-500</a>	10 July 2015
US Large Growth Fund	CRSP US Large Cap Growth Index (converted to the New Zealand dollar)	<a href="http://www.crsp.com/products/investment-products/crsp-us-large-cap-growth-index">http://www.crsp.com/products/investment-products/crsp-us-large-cap-growth-index</a>	10 July 2015
US Large Value Fund	CRSP US Large Cap Value Index (converted to the New Zealand dollar)	<a href="http://www.crsp.com/products/investment-products/crsp-us-large-cap-value-index">http://www.crsp.com/products/investment-products/crsp-us-large-cap-value-index</a>	10 July 2015
<b>SmartMEDIUM</b>			
NZ Mid Cap Fund	S&P/NZX Mid Cap Index	<a href="http://us.spindices.com/indices/equity/sp-nzx-midcap-index">http://us.spindices.com/indices/equity/sp-nzx-midcap-index</a>	9 November 2016
Australian Mid Cap Fund	S&P/ASX Mid Cap 50 Index (converted to the New Zealand dollar)	<a href="http://us.spindices.com/indices/equity/sp-asx-midcap-50">http://us.spindices.com/indices/equity/sp-asx-midcap-50</a>	9 November 2016
US Mid Cap Fund	CRSP US Mid Cap Index (converted to the New Zealand dollar)	<a href="http://www.crsp.com/products/investment-products/crsp-us-mid-cap-index">http://www.crsp.com/products/investment-products/crsp-us-mid-cap-index</a>	10 July 2015



<b>SmartSMALL</b>			
US Small Cap Fund	CRSP US Small Cap Index (converted to the New Zealand dollar)	<a href="http://www.crsp.com/products/investment-products/crsp-us-small-cap-index">http://www.crsp.com/products/investment-products/crsp-us-small-cap-index</a>	10 July 2015
<b>SmartDividend</b>			
NZ Dividend Fund	S&P/NZX 50 High Dividend Index	<a href="http://us.spindices.com/indices/strategy/sp-nzx-50-high-dividend-index">http://us.spindices.com/indices/strategy/sp-nzx-50-high-dividend-index</a>	19 March 2015
Australian Dividend Fund	S&P/ASX Dividend Opportunities Index (converted to the New Zealand dollar)	<a href="http://us.spindices.com/indices/strategy/sp-asx-dividend-opportunities-index">http://us.spindices.com/indices/strategy/sp-asx-dividend-opportunities-index</a>	1 December 2014
<b>SmartINCOME</b>			
NZ Cash Fund	S&P/NZX Bank Bills 90-Day Index	<a href="http://us.spindices.com/indices/fixed-income/sp-nzx-bank-bills-90-day-index">http://us.spindices.com/indices/fixed-income/sp-nzx-bank-bills-90-day-index</a>	15 October 2015
NZ Bond Fund	S&P/NZX A-Grade Corporate Bond Index	<a href="http://us.spindices.com/indices/fixed-income/sp-nzx-a-grade-corporate-bond-index">http://us.spindices.com/indices/fixed-income/sp-nzx-a-grade-corporate-bond-index</a>	15 October 2015
Global Bond Fund	Barclays Global Aggregate Index (100% hedged to the New Zealand dollar)	<a href="https://index.barcap.com/Benchmark Indices/Aggregate/Bond Indices">https://index.barcap.com/Benchmark Indices/Aggregate/Bond Indices</a>	15 October 2015



<b>SmartSECTOR</b>			
NZ Property Fund	S&P/NZX Real Estate Select Index	<a href="http://us.spindices.com/indices/equity/sp-nzx-real-estate-select">http://us.spindices.com/indices/equity/sp-nzx-real-estate-select</a>	15 October 2018
Australian Financials Fund	S&P/ASX 200 Financials Ex-A-REIT Index (converted to the New Zealand dollar)	<a href="http://us.spindices.com/indices/equity/sp-asx-200-financial-x-a-reit-sector">http://us.spindices.com/indices/equity/sp-asx-200-financial-x-a-reit-sector</a>	19 March 2015
Australian Property Fund	S&P/ASX 200 A-REIT Equal Weight Index (converted to the New Zealand dollar)	<a href="http://us.spindices.com/indices/equity/sp-asx-200-a-reit-equal-weight">http://us.spindices.com/indices/equity/sp-asx-200-a-reit-equal-weight</a>	1 December 2014
Australian Resources Fund	S&P/ASX 200 Resources Index (converted to the New Zealand dollar)	<a href="http://us.spindices.com/indices/equity/sp-asx-200-resources">http://us.spindices.com/indices/equity/sp-asx-200-resources</a>	19 March 2015
<b>Smartshares ETFs built with iShares Series</b>			
Smartshares Automation and Robotics ETF	MSCI World ESG Screened Index (converted to the New Zealand dollar)	<a href="https://www.msci.com/esg-screened-indexes">https://www.msci.com/esg-screened-indexes</a>	28 May 2019
Smartshares Emerging Markets Equities ESG ETF	MSCI EM IMI ESG Screened Index (converted to the New Zealand dollar)	<a href="https://www.msci.com/esg-screened-indexes">https://www.msci.com/esg-screened-indexes</a>	28 May 2019



Smartshares Europe Equities ESG ETF	MSCI Europe ESG Screened Index (converted to the New Zealand dollar)	<a href="https://www.msci.com/esg-screened-indexes">https://www.msci.com/esg-screened-indexes</a>	28 May 2019
Smartshares Global Aggregate Bond ETF	Bloomberg Barclays Global Aggregate Index (converted to the New Zealand dollar)	<a href="https://www.bloomberg.com/quote/LEGATR00:IND">https://www.bloomberg.com/quote/LEGATR00:IND</a>	28 May 2019
Smartshares Global Equities ESG ETF	MSCI World ESG Screened Index (converted to the New Zealand dollar)	<a href="https://www.msci.com/esg-screened-indexes">https://www.msci.com/esg-screened-indexes</a>	28 May 2019
Smartshares Healthcare Innovation ETF	MSCI World ESG Screened Index (converted to the New Zealand dollar)	<a href="https://www.msci.com/esg-screened-indexes">https://www.msci.com/esg-screened-indexes</a>	28 May 2019
Smartshares Japan Equities ESG ETF	MSCI Japan ESG Screened Index (converted to the New Zealand dollar)	<a href="https://www.msci.com/esg-screened-indexes">https://www.msci.com/esg-screened-indexes</a>	28 May 2019
Smartshares US Equities ESG ETF	MSCI USA ESG Screened Index (converted to the New Zealand dollar)	<a href="https://www.msci.com/esg-screened-indexes">https://www.msci.com/esg-screened-indexes</a>	28 May 2019