

# Managed Portfolio Service

**Financial Statements for the year ended 31 March 2016**



Prepared by New Zealand Funds Management Limited



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## INDEPENDENT AUDITOR'S REPORT

### **To the Unitholders of the NZ Funds Managed Portfolio Service and New Zealand Unit Trusts**

#### **Report on the Financial Statements**

We have audited the financial statements of the Portfolios, detailed in Note 1, on pages 4 to 45, which comprise the balance sheets of each of the Portfolios as at 31 March 2016, and the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Unitholders, as a body, in accordance with Financial Reporting Act 1993 and the Trust Deeds governing the Portfolios. Our audit has been undertaken so that we might state to the Unitholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Unitholders of the Portfolios, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Manager's Responsibility for the Financial Statements**

The Manager is responsible for the preparation of the financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.



We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Ernst & Young provide other assurance services to the Portfolios. We have no other relationship with, or interest in, the Portfolios. Partners and employees of our firm may deal with the Portfolios on normal terms within the ordinary course of trading activities of the business of the Portfolios.

**Opinion**

In our opinion, the financial statements on pages 4 to 45:

- > comply with generally accepted accounting practice in New Zealand;
- > comply with International Financial Reporting Standards; and
- > give a true and fair view of the financial position of each of the Portfolios as at 31 March 2016 and their financial performance and cash flows for the year then ended.

**Report on Other Legal and Regulatory Requirements**

In accordance with the Financial Reporting Act 1993, we report that:

- > We have obtained all the information and explanations that we have required.
- > In our opinion proper accounting records have been kept by the Portfolios as far as appears from our examination of those records.

The signature logo for Ernst &amp; Young, written in a cursive script.

6 July 2016  
Auckland

# Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2016

	NOTE	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
		2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>REVENUE</b>											
Interest Revenue	13	23	18	22	28	13	24	31	29	15	16
Dividend Revenue		-	-	-	-	-	-	1,011	6,706	-	-
Net Trading Gains/(Losses)	14	1,479	1,495	4,577	6,735	4,179	4,020	(5,047)	9,408	3,740	9,646
Other Revenue		-	1	-	1	-	1	-	-	-	-
<b>TOTAL REVENUE</b>		<b>1,502</b>	<b>1,514</b>	<b>4,599</b>	<b>6,764</b>	<b>4,192</b>	<b>4,045</b>	<b>(4,005)</b>	<b>16,143</b>	<b>3,755</b>	<b>9,662</b>
<b>EXPENSES</b>											
Audit and Professional Fees	15	9	11	18	24	16	23	18	27	11	15
Fees and Reimbursable Expenses	16	104	93	1,098	954	911	779	2,689	2,477	1,401	1,233
Sundry Expenses		-	-	1	1	1	1	1	3	1	1
<b>TOTAL EXPENSES</b>		<b>113</b>	<b>104</b>	<b>1,117</b>	<b>979</b>	<b>928</b>	<b>803</b>	<b>2,708</b>	<b>2,507</b>	<b>1,413</b>	<b>1,249</b>
<b>NET PROFIT/(LOSS) BEFORE TAXATION</b>		<b>1,389</b>	<b>1,410</b>	<b>3,482</b>	<b>5,785</b>	<b>3,264</b>	<b>3,242</b>	<b>(6,713)</b>	<b>13,636</b>	<b>2,342</b>	<b>8,413</b>
Taxation Expense	18	-	-	-	-	-	-	-	-	-	-
<b>NET PROFIT/(LOSS) AFTER TAXATION</b>		<b>1,389</b>	<b>1,410</b>	<b>3,482</b>	<b>5,785</b>	<b>3,264</b>	<b>3,242</b>	<b>(6,713)</b>	<b>13,636</b>	<b>2,342</b>	<b>8,413</b>
Other Comprehensive Income		-	-	-	-	-	-	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>		<b>1,389</b>	<b>1,410</b>	<b>3,482</b>	<b>5,785</b>	<b>3,264</b>	<b>3,242</b>	<b>(6,713)</b>	<b>13,636</b>	<b>2,342</b>	<b>8,413</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
17	16	67	43	21	15	45	21	4	5	2	4
930	4,352	7,206	18,817	9	722	5,439	7,356	-	-	-	-
1,057	5,024	(16,670)	5,446	(6,198)	(6,477)	(10,595)	8,846	6,341	9,497	(448)	955
-	-	1	40	5	43	-	28	-	-	-	-
<b>2,004</b>	<b>9,392</b>	<b>(9,396)</b>	<b>24,346</b>	<b>(6,163)</b>	<b>(5,697)</b>	<b>(5,111)</b>	<b>16,251</b>	<b>6,345</b>	<b>9,502</b>	<b>(446)</b>	<b>959</b>
11	16	18	30	7	12	10	16	9	15	2	2
1,336	1,202	1,035	4,087	652	815	26	2,375	1,302	1,628	86	174
1	1	1	1	-	-	1	1	-	1	-	-
<b>1,348</b>	<b>1,219</b>	<b>1,054</b>	<b>4,118</b>	<b>659</b>	<b>827</b>	<b>37</b>	<b>2,392</b>	<b>1,311</b>	<b>1,644</b>	<b>88</b>	<b>176</b>
656	8,173	(10,450)	20,228	(6,822)	(6,524)	(5,148)	13,859	5,034	7,858	(534)	783
-	-	-	-	-	-	-	-	-	-	-	-
<b>656</b>	<b>8,173</b>	<b>(10,450)</b>	<b>20,228</b>	<b>(6,822)</b>	<b>(6,524)</b>	<b>(5,148)</b>	<b>13,859</b>	<b>5,034</b>	<b>7,858</b>	<b>(534)</b>	<b>783</b>
-	-	-	-	-	-	-	-	-	-	-	-
<b>656</b>	<b>8,173</b>	<b>(10,450)</b>	<b>20,228</b>	<b>(6,822)</b>	<b>(6,524)</b>	<b>(5,148)</b>	<b>13,859</b>	<b>5,034</b>	<b>7,858</b>	<b>(534)</b>	<b>783</b>

# Balance Sheet

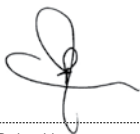
AS AT 31 MARCH 2016

	NOTE	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
		2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>UNITHOLDERS' FUNDS</b>	12	<b>53,768</b>	<b>39,672</b>	<b>119,064</b>	<b>105,126</b>	<b>107,341</b>	<b>90,627</b>	<b>139,538</b>	<b>138,537</b>	<b>71,052</b>	<b>66,501</b>
Represented by:											
<b>ASSETS</b>											
Cash and Cash Equivalents		914	762	2,288	447	603	491	6,530	1,203	185	808
Receivables	7	119	53	409	212	480	148	927	48	59	110
Trading Portfolio Assets	8, 11	52,934	39,305	117,021	104,843	106,967	90,252	133,401	137,744	71,050	65,897
Derivative Instruments	9, 11	-	-	-	-	-	-	-	-	-	-
Margin Accounts		-	-	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>		<b>53,967</b>	<b>40,120</b>	<b>119,718</b>	<b>105,502</b>	<b>108,050</b>	<b>90,891</b>	<b>140,858</b>	<b>138,995</b>	<b>71,294</b>	<b>66,815</b>
<b>LIABILITIES</b>											
Payables	17	199	448	654	376	709	264	1,320	458	242	314
Derivative Instruments	9, 11	-	-	-	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>		<b>199</b>	<b>448</b>	<b>654</b>	<b>376</b>	<b>709</b>	<b>264</b>	<b>1,320</b>	<b>458</b>	<b>242</b>	<b>314</b>
<b>NET ASSETS</b>		<b>53,768</b>	<b>39,672</b>	<b>119,064</b>	<b>105,126</b>	<b>107,341</b>	<b>90,627</b>	<b>139,538</b>	<b>138,537</b>	<b>71,052</b>	<b>66,501</b>

For and on behalf of the manager, New Zealand Funds Management Limited, who authorised the issue of these financial statements on 6 July 2016.



Phil Doak  
Director



Richard James  
Director



EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>70,172</b>	<b>66,582</b>	<b>101,456</b>	<b>122,088</b>	<b>32,508</b>	<b>34,484</b>	<b>50,505</b>	<b>61,492</b>	<b>55,743</b>	<b>53,647</b>	<b>5,027</b>	<b>6,749</b>
707	658	1,032	1,142	1,431	484	456	511	219	206	126	66
200	126	479	737	66	227	651	299	129	21	58	13
69,460	65,974	100,600	118,582	31,091	33,769	49,321	60,839	55,782	53,836	4,910	6,708
188	197	1,181	3,052	59	337	248	822	-	-	-	-
-	-	1	517	-	-	-	-	-	-	-	-
<b>70,555</b>	<b>66,955</b>	<b>103,293</b>	<b>124,030</b>	<b>32,647</b>	<b>34,817</b>	<b>50,676</b>	<b>62,471</b>	<b>56,130</b>	<b>54,063</b>	<b>5,094</b>	<b>6,787</b>
376	319	371	1,913	131	302	138	967	387	416	67	38
7	54	1,466	29	8	31	33	12	-	-	-	-
<b>383</b>	<b>373</b>	<b>1,837</b>	<b>1,942</b>	<b>139</b>	<b>333</b>	<b>171</b>	<b>979</b>	<b>387</b>	<b>416</b>	<b>67</b>	<b>38</b>
<b>70,172</b>	<b>66,582</b>	<b>101,456</b>	<b>122,088</b>	<b>32,508</b>	<b>34,484</b>	<b>50,505</b>	<b>61,492</b>	<b>55,743</b>	<b>53,647</b>	<b>5,027</b>	<b>6,749</b>

# Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2016

	NOTE	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
		2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>RETAINED EARNINGS</b>											
Opening Retained Earnings/(Deficit)		5,492	4,082	18,178	12,393	9,366	6,124	14,761	1,125	16,434	8,021
Total Comprehensive Income/(Loss)		1,389	1,410	3,482	5,785	3,264	3,242	(6,713)	13,636	2,342	8,413
Closing Retained Earnings/(Deficit)		6,881	5,492	21,660	18,178	12,630	9,366	8,048	14,761	18,776	16,434
<b>UNITS ISSUED</b>											
Opening Units Issued		34,180	36,719	86,948	80,883	81,261	71,918	123,776	122,127	50,067	49,147
Units Issued		54,023	34,253	24,688	21,044	22,913	19,674	22,189	19,442	10,082	9,087
Units Redeemed		(41,316)	(36,792)	(14,232)	(14,979)	(9,463)	(10,331)	(14,475)	(17,793)	(7,873)	(8,167)
Closing Units Issued		46,887	34,180	97,404	86,948	94,711	81,261	131,490	123,776	52,276	50,067
<b>TOTAL UNITHOLDERS' FUNDS</b>	12	<b>53,768</b>	<b>39,672</b>	<b>119,064</b>	<b>105,126</b>	<b>107,341</b>	<b>90,627</b>	<b>139,538</b>	<b>138,537</b>	<b>71,052</b>	<b>66,501</b>
<b>COMPRISES</b>											
Retained Earnings/(Deficit)		6,881	5,492	21,660	18,178	12,630	9,366	8,048	14,761	18,776	16,434
Units Issued		46,887	34,180	97,404	86,948	94,711	81,261	131,490	123,776	52,276	50,067
		<b>53,768</b>	<b>39,672</b>	<b>119,064</b>	<b>105,126</b>	<b>107,341</b>	<b>90,627</b>	<b>139,538</b>	<b>138,537</b>	<b>71,052</b>	<b>66,501</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
(33,887)	(42,060)	40,042	19,814	(15,629)	(9,105)	25,137	11,278	17,078	9,220	5,577	4,794
656	8,173	(10,450)	20,228	(6,822)	(6,524)	(5,148)	13,859	5,034	7,858	(534)	783
(33,231)	(33,887)	29,592	40,042	(22,451)	(15,629)	19,989	25,137	22,112	17,078	5,043	5,577
100,469	98,389	82,046	92,961	50,113	49,371	36,355	42,945	36,569	38,792	1,172	3,655
10,773	10,119	13,969	11,373	9,607	6,763	5,721	4,962	5,493	5,489	360	289
(7,839)	(8,039)	(24,151)	(22,288)	(4,761)	(6,021)	(11,560)	(11,552)	(8,431)	(7,712)	(1,548)	(2,772)
103,403	100,469	71,864	82,046	54,959	50,113	30,516	36,355	33,631	36,569	(16)	1,172
<b>70,172</b>	<b>66,582</b>	<b>101,456</b>	<b>122,088</b>	<b>32,508</b>	<b>34,484</b>	<b>50,505</b>	<b>61,492</b>	<b>55,743</b>	<b>53,647</b>	<b>5,027</b>	<b>6,749</b>
(33,231)	(33,887)	29,592	40,042	(22,451)	(15,629)	19,989	25,137	22,112	17,078	5,043	5,577
103,403	100,469	71,864	82,046	54,959	50,113	30,516	36,355	33,631	36,569	(16)	1,172
<b>70,172</b>	<b>66,582</b>	<b>101,456</b>	<b>122,088</b>	<b>32,508</b>	<b>34,484</b>	<b>50,505</b>	<b>61,492</b>	<b>55,743</b>	<b>53,647</b>	<b>5,027</b>	<b>6,749</b>

# Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2016

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>										
Cash was provided from:										
Interest	23	18	22	28	13	24	31	29	15	16
Other Revenue	-	1	-	1	-	1	-	-	-	-
Maturity/Sale of Investments	5,650	6,750	1,349	715	7,452	1,050	56,795	39,076	1,632	1,098
Cash was applied to:										
Payments to Suppliers	(112)	(105)	(1,104)	(956)	(898)	(798)	(2,684)	(2,460)	(1,405)	(1,221)
Purchase of Investments	(17,800)	(3,850)	(8,950)	(6,100)	(19,988)	(9,850)	(56,488)	(38,215)	(3,045)	(860)
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>(12,239)</b>	<b>2,814</b>	<b>(8,683)</b>	<b>(6,312)</b>	<b>(13,421)</b>	<b>(9,573)</b>	<b>(2,346)</b>	<b>(1,570)</b>	<b>(2,803)</b>	<b>(967)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>										
Cash was provided from:										
Proceeds from Units Issued	53,806	34,504	24,597	21,062	22,612	19,683	21,214	18,939	9,613	9,001
PIE tax rebates received from the IRD on behalf of the unitholders	-	-	41	-	268	-	824	621	394	147
Cash was applied to:										
Payments for Units Redeemed	(41,196)	(36,503)	(13,740)	(14,306)	(8,932)	(9,986)	(14,311)	(17,364)	(7,464)	(8,007)
PIE tax paid to the IRD on behalf of the unitholders	(219)	(202)	(374)	(690)	(415)	(362)	(54)	(453)	(363)	(169)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>12,391</b>	<b>(2,201)</b>	<b>10,524</b>	<b>6,066</b>	<b>13,533</b>	<b>9,335</b>	<b>7,673</b>	<b>1,743</b>	<b>2,180</b>	<b>972</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD</b>	<b>152</b>	<b>613</b>	<b>1,841</b>	<b>(246)</b>	<b>112</b>	<b>(238)</b>	<b>5,327</b>	<b>173</b>	<b>(623)</b>	<b>5</b>
Opening Cash and Cash Equivalents Brought Forward	762	149	447	693	491	729	1,203	1,030	808	803
<b>CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	<b>914</b>	<b>762</b>	<b>2,288</b>	<b>447</b>	<b>603</b>	<b>491</b>	<b>6,530</b>	<b>1,203</b>	<b>185</b>	<b>808</b>
<b>RECONCILIATION OF NET PROFIT/(LOSS) AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES</b>										
Net Profit/(Loss) After Taxation	1,389	1,410	3,482	5,785	3,264	3,242	(6,713)	13,636	2,342	8,413
Add/(Less) Movements in Working Capital Items:										
Decrease/(Increase) in Receivables	(5)	(12)	(188)	(114)	(339)	(62)	(876)	82	53	(20)
Decrease/(Increase) in Trading Portfolio Assets	(13,629)	1,405	(12,178)	(12,120)	(16,715)	(12,820)	4,343	(15,253)	(5,153)	(9,408)
Decrease/(Increase) in Derivative Instruments - Assets	-	-	-	-	-	-	-	-	-	-
Decrease/(Increase) in Margin Accounts	-	-	-	-	-	-	-	-	-	-
Increase/(Decrease) in Derivative Instruments - Liabilities	-	-	-	-	-	-	-	-	-	-
Increase/(Decrease) in Payables	6	11	201	137	369	67	900	(35)	(45)	48
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>(12,239)</b>	<b>2,814</b>	<b>(8,683)</b>	<b>(6,312)</b>	<b>(13,421)</b>	<b>(9,573)</b>	<b>(2,346)</b>	<b>(1,570)</b>	<b>(2,803)</b>	<b>(967)</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
17	16	67	43	21	15	45	21	4	5	2	4
-	-	1	40	5	43	-	28	-	-	-	-
21,239	16,831	91,335	67,614	30,003	22,177	36,170	36,370	5,100	3,920	1,640	3,061
(1,342)	(1,192)	(2,326)	(4,694)	(671)	(828)	(1,214)	(2,540)	(1,444)	(1,556)	(104)	(514)
(22,776)	(17,784)	(78,993)	(53,121)	(33,259)	(21,907)	(29,213)	(27,437)	(705)	(550)	(290)	(410)
<b>(2,862)</b>	<b>(2,129)</b>	<b>10,084</b>	<b>9,882</b>	<b>(3,901)</b>	<b>(500)</b>	<b>5,788</b>	<b>6,442</b>	<b>2,955</b>	<b>1,819</b>	<b>1,248</b>	<b>2,141</b>
10,081	9,771	12,849	11,333	9,323	6,760	5,408	4,964	5,268	5,295	248	276
624	403	1,105	40	279	-	306	-	219	194	112	12
(7,794)	(8,051)	(21,554)	(21,181)	(3,561)	(5,627)	(10,581)	(10,969)	(8,325)	(7,682)	(1,503)	(2,771)
-	-	(2,594)	(1,160)	(1,193)	(397)	(976)	(608)	(104)	(43)	(45)	(1)
<b>2,911</b>	<b>2,123</b>	<b>(10,194)</b>	<b>(10,968)</b>	<b>4,848</b>	<b>736</b>	<b>(5,843)</b>	<b>(6,613)</b>	<b>(2,942)</b>	<b>(2,236)</b>	<b>(1,188)</b>	<b>(2,484)</b>
49	(6)	(110)	(1,086)	947	236	(55)	(171)	13	(417)	60	(343)
658	664	1,142	2,228	484	248	511	682	206	623	66	409
<b>707</b>	<b>658</b>	<b>1,032</b>	<b>1,142</b>	<b>1,431</b>	<b>484</b>	<b>456</b>	<b>511</b>	<b>219</b>	<b>206</b>	<b>126</b>	<b>66</b>
656	8,173	(10,450)	20,228	(6,822)	(6,524)	(5,148)	13,859	5,034	7,858	(534)	783
(72)	(26)	255	(728)	156	(90)	(352)	(296)	(109)	38	(45)	(12)
(3,486)	(10,071)	17,982	(5,064)	2,678	6,410	11,518	(6,110)	(1,946)	(6,127)	1,798	1,696
9	(183)	1,871	(2,807)	278	(313)	574	(757)	-	-	-	-
-	-	516	(517)	-	-	-	-	-	-	-	-
(47)	(75)	1,437	(1,382)	(23)	(72)	21	(402)	-	-	-	-
78	53	(1,527)	152	(168)	89	(825)	148	(24)	50	29	(326)
<b>(2,862)</b>	<b>(2,129)</b>	<b>10,084</b>	<b>9,882</b>	<b>(3,901)</b>	<b>(500)</b>	<b>5,788</b>	<b>6,442</b>	<b>2,955</b>	<b>1,819</b>	<b>1,248</b>	<b>2,141</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 1. REPORTING ENTITIES

The reporting entities are the Core Cash Portfolio, the Core Income Portfolio, the Global Income Portfolio, the Core Inflation Portfolio, the Property Inflation Portfolio, the Equity Inflation Portfolio, the Core Growth Portfolio, the Global Multi-Asset Growth Portfolio, the Global Equity Growth Portfolio, the Dividend and Growth Portfolio and the Capital Opportunities Portfolio (‘the Portfolios’).

The Portfolios are New Zealand unit trusts, incorporated and resident in New Zealand. Securities in the Portfolios are currently offered to the public via registered prospectuses. The securities being offered are units in the Portfolios.

On 27 November 2015, Corporate Trust Limited (trading as Foundation Corporate Trust) retired as the Trustee of the Portfolios, and The New Zealand Guardian Trust Company Limited was appointed as the Trustee of the Portfolios. The Portfolios are either governed by the NZ Funds Managed Portfolio Service Master Trust Deed dated 28 February 2008 (as amended and consolidated on 26 June 2014) or by the Strategic Investment Fund Master Trust Deed dated 8 August 1988 (as amended and consolidated on 26 June 2014). New Zealand Funds Management Limited (‘NZ Funds’) is the Manager. The registered office of the Portfolios is the same as NZ Funds, refer to the Directory for details.

## 2. BASIS OF PREPARATION

### a) Statement of compliance

The Portfolios’ financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (‘NZ GAAP’), the Trust Deeds of the Portfolios, the Unit Trusts Act 1960 and the Financial Reporting Act 1993. They comply with New Zealand Equivalents to International Financial Reporting Standards (‘NZ IFRS’) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. These financial statements also comply with International Financial Reporting Standards (‘IFRS’).

### b) Going concern

The financial statements have been prepared on a going concern basis. NZ Funds is not aware of any material uncertainty that may cast significant doubt on the Portfolios’ ability to continue as going concerns.

### c) Basis of measurement

The financial statements have been prepared on a fair value basis, except for assets classified as loans and receivables, and liabilities classified as payables, which are carried at amortised cost.

### d) Functional and presentation currency

Items included in the financial statements of each Portfolio are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Portfolios primarily operate in New Zealand, issuing securities predominantly to New Zealand clients and carrying out their day-to-day business activities in New Zealand. The financial statements are prepared in New Zealand Dollars (‘NZD’), which is the Portfolios’ functional and reporting currency. Where indicated, financial information presented in NZD has been rounded to the nearest thousand.

### e) Use of estimates

In preparing the financial statements in conformity with NZ IFRS, NZ Funds is required to make certain estimates, judgements and assumptions that affect reported income, expenses, assets and liabilities. The key judgements required in preparing these financial statements relate to the determination of fair value for financial instruments, refer to Note 3(i) *Significant accounting policies* for details.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently to all years presented in these financial statements.

### a) Classification

The Portfolios adopt the following categories of financial instruments in accordance with accounting standards governing the classification and valuation of financial instruments:

- (i) Financial assets or liabilities at fair value through the profit or loss account (held for trading). These include trading portfolio assets and derivative instruments;
- (ii) Loans and receivables. These include cash and cash equivalents, accrued interest, and receivables from other unit trusts and unitholders, and margin accounts; and
- (iii) Financial liabilities measured at amortised cost. These represent amounts payable to the Trustee, NZ Funds, unitholders, service providers and other accruals.

### b) Recognition

The Portfolios use trade date accounting when recording trading portfolio assets and derivative instruments. The trade date is the

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date that an entity commits itself to purchase or sell an asset. On the trade date, the Portfolios recognise an asset to be received and the liability to pay for it, derecognise an asset that is sold, and recognise any gain or loss on disposal and a receivable from the buyer for payment. Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date, when title passes.

**c) Derecognition**

The Portfolios may enter into transactions where they transfer financial assets recognised on their Balance Sheet, but retain either all of the risks and rewards of the transferred assets, or a portion of them. If all, or substantially all, the risks and rewards are retained, the transferred assets are not derecognised from the Balance Sheet.

For transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Portfolios derecognise the financial asset to the extent that control over the financial asset is lost. If a Portfolio has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

**d) Cash and cash equivalents**

Cash and cash equivalents comprise deposits and call accounts with banks. Cash equivalents are short-term investments that are, in most circumstances, convertible to known amounts of cash.

**e) Receivables**

Receivables are initially recognised at fair value, and are subsequently measured at their amortised cost using the effective interest method, less provision for impairment losses.

**f) Margin accounts**

Margin accounts represent cash deposits held with financial intermediaries as collateral against open derivative contracts.

**g) Translation of foreign currencies**

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Statement of Comprehensive Income.

**h) Trading portfolio assets**

Trading portfolio assets consist of investments in unit trusts and/or managed funds. Investments in trading portfolio assets are carried at fair value. Gains and losses realised on disposal or redemption, and unrealised gains and losses from changes in the fair value of trading portfolio assets, are reported as net trading gains/(losses) in the Statement of Comprehensive Income. Interest and dividend revenues on trading portfolio assets are included in interest revenue and dividend revenue, respectively, in the Statement of Comprehensive Income.

**i) Determination of fair values**

The determination of fair value for financial assets and financial liabilities is based on quoted market prices from active markets. If such quoted prices are not available, the fair value of the financial instrument is determined using valuation techniques. Valuation techniques include using arm's length market transactions, reference to the current market value of another similar financial instrument, discounted cash flow analysis and valuation models.

Inputs to valuation models are taken from observable markets where feasible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include consideration of various factors used in the inputs to the valuation models. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**j) Derivative instruments**

The Portfolios may use derivative instruments for trading purposes. Derivative instruments are recognised initially at fair value and transaction costs are expensed immediately. After initial recognition, derivative instruments are carried at fair value. Gains/(losses) realised on disposal and unrealised gains/(losses) from changes in the fair value of derivatives are reported as net trading gains/(losses) in the Statement of Comprehensive Income.

**k) Past due, impaired and restructured assets**

Past due assets are assets that have not been paid for by the counterparty when contractually due. Impaired assets are assets where the present value of expected future cash flows discounted at the original effective interest rate is less than the carrying value. Restructured assets are assets where the terms of a contract have been changed due to a counterparty having difficulty in complying with the original terms of a contract.

If an asset is impaired, the asset is written down to its estimated recoverable amount. The estimated recoverable amount is calculated as the present value of expected future cash flows discounted at the original effective interest rate, and an impairment loss is recognised in the Statement of Comprehensive Income.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### l) **Offsetting**

Financial assets and liabilities are offset and the net amount presented in the Balance Sheet when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a group of similar transactions.

### m) **Interest revenue**

Interest revenue is recognised using the effective interest method.

### n) **Dividend revenue**

Dividend revenue is recognised on the date the Portfolios' right to receive payment is established which, in the case of quoted securities, is the ex-dividend date. In some cases, the Portfolios may receive or choose to receive dividends in the form of additional shares rather than as cash. In such cases, the Portfolios recognise the dividend revenue for the amount of the cash dividend alternative, with a corresponding addition in investment.

### o) **Net trading gains/(losses)**

Net trading gains/(losses) comprise gains less losses related to trading portfolio assets and derivative instruments. This includes all realised and unrealised fair value changes and foreign exchange differences.

### p) **Fees and expenses**

The Portfolios incur fees and expenses for a range of services they receive from various service providers. Fees and expenses are accrued as services are rendered. Performance fees are accrued daily. Performance fees due at the completion of the rebate year are paid to NZ Funds and amounts due at the completion of the performance year are paid to and held in trust by the Trustee.

### q) **Taxation**

All of the Portfolios are Portfolio Investment Entities ('PIEs'). Under the PIE regime detailed in the Income Tax Act 2007, income is effectively taxed in the hands of the unitholders and therefore income tax expense is not recognised by the Portfolios. The tax liability arising on income is allocated to unitholders and satisfied either by the cancellation of their units held in the Portfolios, or by the unitholders personally. As a consequence, deferred tax is also not recognised. The Portfolios settle any PIE tax receivables and payables on behalf of the unitholders.

Net taxation receivable or payable on behalf of the unitholders under the PIE regime is recognised in the Balance Sheet.

### r) **Goods and Services Tax ('GST')**

The Portfolios are not registered for GST. All components of the financial statements are stated as inclusive of GST where applicable.

### s) **Changes to accounting policies**

There have been no changes to the accounting policies for the year ended 31 March 2016.

### t) **New accounting standards issued but not yet effective**

NZ IFRS 9 (2014) is the final version of NZ IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of NZ IFRS 9. The effective date of the standard is for annual periods beginning on or after 1 January 2018.

An entity may elect to apply earlier versions of NZ IFRS 9 if, and only if, the entity's relevant date of initial application is before 1 February 2015. Otherwise, early application is only permitted if the complete version of NZ IFRS 9 is adopted in its entirety for reporting periods beginning after 4 September 2014. The transition to NZ IFRS 9 differs by requirements and is partly retrospective and partly prospective. Despite the requirement to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10-11 of NZ IFRS 7 *Financial Instruments: Disclosures*.

The impact this standard will have on the Portfolios' financial statements is still to be determined.

The Portfolios do not plan to early adopt the above standard.



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#### 4. COMMENCEMENT OF BUSINESS

The Portfolios have either been established as original Portfolios under the Trust Deeds, or as additional Portfolios by way of executed Supplemental Trust Deeds. Each Portfolio was established on the date specified below:

	<b>DATE ESTABLISHED</b>	<b>DATE BUSINESS COMMENCED</b>
Core Cash Portfolio	28/02/2008	28/02/2008
Core Income Portfolio	4/06/2008	23/07/2008
Global Income Portfolio	9/10/2008	31/10/2008
Core Inflation Portfolio	13/05/1999	13/05/1999
Property Inflation Portfolio	9/10/2008	31/10/2008
Equity Inflation Portfolio	13/05/1999	13/05/1999
Core Growth Portfolio	9/10/2008	31/10/2008
Global Multi-Asset Growth Portfolio	9/10/2008	31/10/2008
Global Equity Growth Portfolio	9/10/2008	31/10/2008
Dividend and Growth Portfolio	9/10/2008	31/10/2008
Capital Opportunities Portfolio	4/06/2008	23/07/2008

#### 5. AMENDMENT TO THE TRUST DEEDS

There have been no amendments to the Trust Deeds for the year ended 31 March 2016.

#### 6. PRINCIPAL BUSINESS ACTIVITY

The principal business activity of the Portfolios is to invest in financial instruments.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 7. RECEIVABLES

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Performance fee refundable from Trustee	-	-	-	-	-	-	-	-	-	-
PIE tax payable to the IRD to be recovered from unitholders	58	53	399	211	476	137	-	47	-	110
PIE tax rebates receivable from the IRD on behalf of unitholders	-	-	-	-	-	-	923	-	57	-
Receivable from other unit trusts - related parties	61	-	10	1	4	11	4	1	2	-
<b>TOTAL RECEIVABLES</b>	<b>119</b>	<b>53</b>	<b>409</b>	<b>212</b>	<b>480</b>	<b>148</b>	<b>927</b>	<b>48</b>	<b>59</b>	<b>110</b>

## 8. TRADING PORTFOLIO ASSETS

The Portfolios invest substantially all of their assets into the trusts established under the Global Investment Service Trust Deed, for which Global Investment Services Limited is the trustee ('GISL trusts') and the Trust Deed Relating to the Issue of Units Other Than to the Public for which New Zealand Funds Superannuation Limited is the trustee ('NZFS trusts'), each in different proportions (refer to Note 19 *Related party*).

INVESTMENTS IN TRADING PORTFOLIO ASSETS	2016 \$000	2015 \$000
Core Cash Portfolio	52,934	39,305
Core Income Portfolio	117,021	104,843
Global Income Portfolio	106,967	90,252
Core Inflation Portfolio	133,401	137,744
Property Inflation Portfolio	71,050	65,897
Equity Inflation Portfolio	69,460	65,974
Core Growth Portfolio	100,600	118,582
Global Multi-Asset Growth Portfolio	31,091	33,769
Global Equity Growth Portfolio	49,321	60,839
Dividend and Growth Portfolio	55,782	53,836
Capital Opportunities Portfolio	4,910	6,708

## 9. DERIVATIVE INSTRUMENTS

### a) Overview

A derivative is a financial instrument, the value of which is derived from the value of another financial instrument, index or other variables. Typically, the underlying instrument is a share, commodity, bond, currency or index.

The majority of derivative contracts are negotiated as an amount (notional), maturity and price between the Portfolios and a financial counterparty, namely over-the-counter ('OTC') contracts. The remainder of the derivative contracts are standardised in terms of their amounts and settlement dates, and are bought and sold on active markets, namely exchange-traded contracts.

The notional amount of a derivative is generally the quantity of the underlying instrument on which the derivative contract is based, and is the basis upon which changes in the value of the contract are measured. The amount disclosed as notional is the larger of gross long or absolute gross short foreign currency exposures, converted to New Zealand dollars at year-end-exchange rates.

Derivative instruments are carried at fair value, based on quoted market prices for exchange traded contracts or valuation techniques, applying market observable inputs for OTC contracts.

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
-	-	315	-	-	-	605	-	-	-	-	-
-	-	-	733	65	221	-	298	-	19	-	13
198	126	163	-	-	-	45	-	128	-	58	-
2	-	1	4	1	6	1	1	1	2	-	-
<b>200</b>	<b>126</b>	<b>479</b>	<b>737</b>	<b>66</b>	<b>227</b>	<b>651</b>	<b>299</b>	<b>129</b>	<b>21</b>	<b>58</b>	<b>13</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 9. DERIVATIVE INSTRUMENTS (CONTINUED)

### b) Types of derivative instruments

Forward contracts are contractual obligations to buy or sell financial instruments on a future date at a specified price.

As at 31 March 2016, the Equity Inflation Portfolio, the Core Growth Portfolio, the Global Multi-Asset Growth Portfolio and the Global Equity Growth Portfolio held currency forward contracts. The following table sets out the notional amounts of the derivative contracts and the associated fair value of derivative assets and liabilities as disclosed on the Balance Sheet.

DERIVATIVE INSTRUMENTS	EQUITY INFLATION PORTFOLIO			CORE GROWTH PORTFOLIO			GLOBAL MULTI-ASSET GROWTH PORTFOLIO			GLOBAL EQUITY GROWTH PORTFOLIO		
	NOTIONAL \$000	ASSETS \$000	LIABILITIES \$000	NOTIONAL \$000	ASSETS \$000	LIABILITIES \$000	NOTIONAL \$000	ASSETS \$000	LIABILITIES \$000	NOTIONAL \$000	ASSETS \$000	LIABILITIES \$000
<b>2016</b>												
<i>Directly held derivatives</i>												
Foreign exchange forwards	6,895	188	(7)	36,991	1,181	(1,466)	6,889	59	(8)	5,369	248	(33)
	<b>6,895</b>	<b>188</b>	<b>(7)</b>	<b>36,991</b>	<b>1,181</b>	<b>(1,466)</b>	<b>6,889</b>	<b>59</b>	<b>(8)</b>	<b>5,369</b>	<b>248</b>	<b>(33)</b>
<b>2015</b>												
<i>Directly held derivatives</i>												
Foreign exchange forwards	4,413	197	(54)	68,526	3,052	(29)	4,661	337	(31)	22,842	822	(12)
	<b>4,413</b>	<b>197</b>	<b>(54)</b>	<b>68,526</b>	<b>3,052</b>	<b>(29)</b>	<b>4,661</b>	<b>337</b>	<b>(31)</b>	<b>22,842</b>	<b>822</b>	<b>(12)</b>

### c) Offsetting and amounts subject to master netting arrangements

The Equity Inflation Portfolio, the Core Growth Portfolio, the Global Multi-Asset Growth Portfolio and the Global Equity Growth Portfolio are subject to multiple master netting arrangements with their derivatives counterparties.

The Portfolios offset financial assets and financial liabilities when they have a current legally enforceable right to set off the recognised amounts and intend to settle on a net basis. Each master netting arrangement allows for a net settlement of certain open contracts where the Portfolios and respective counterparties both elect to settle on a net basis. In the absence of such an election, contracts will be settled on a gross basis. The Portfolios have elected to settle transactions of the same type on a net basis.

The following table present the Portfolios' financial assets and liabilities subject to offsetting and enforceable master netting arrangement as at 31 March 2016.

DERIVATIVE INSTRUMENTS	EQUITY INFLATION PORTFOLIO						CORE GROWTH PORTFOLIO					
	GROSS DERIVATIVE ASSETS \$000	GROSS DERIVATIVE LIABILITIES \$000	ADJUSTMENTS \$000	NET DERIVATIVE ASSETS \$000	NET DERIVATIVE LIABILITIES \$000	CASH COLLATERAL PLEGDED NOT SET-OFF \$000	GROSS DERIVATIVE ASSETS \$000	GROSS DERIVATIVE LIABILITIES \$000	ADJUSTMENTS \$000	NET DERIVATIVE ASSETS \$000	NET DERIVATIVE LIABILITIES \$000	CASH COLLATERAL PLEGDED NOT SET-OFF \$000
<b>2016</b>												
<i>Directly held derivatives</i>												
Foreign exchange forwards	197	(16)	(9)	188	(7)	-	1,717	(2,002)	(536)	1,181	(1,466)	(1)
	<b>197</b>	<b>(16)</b>	<b>(9)</b>	<b>188</b>	<b>(7)</b>	<b>-</b>	<b>1,717</b>	<b>(2,002)</b>	<b>(536)</b>	<b>1,181</b>	<b>(1,466)</b>	<b>(1)</b>
<b>2015</b>												
<i>Directly held derivatives</i>												
Foreign exchange forwards	235	(92)	(38)	197	(54)	-	3,891	(868)	(839)	3,052	(29)	(517)
	<b>235</b>	<b>(92)</b>	<b>(38)</b>	<b>197</b>	<b>(54)</b>	<b>-</b>	<b>3,891</b>	<b>(868)</b>	<b>(839)</b>	<b>3,052</b>	<b>(29)</b>	<b>(517)</b>

**GLOBAL MULTI-ASSET GROWTH PORTFOLIO**

**GLOBAL EQUITY GROWTH PORTFOLIO**

GROSS DERIVATIVE ASSETS	GROSS DERIVATIVE LIABILITIES	ADJUSTMENTS	NET DERIVATIVE ASSETS	NET DERIVATIVE LIABILITIES	CASH COLLATERAL PLEGDED NOT SET-OFF	GROSS DERIVATIVE ASSETS	GROSS DERIVATIVE LIABILITIES	ADJUSTMENTS	NET DERIVATIVE ASSETS	NET DERIVATIVE LIABILITIES	CASH COLLATERAL PLEGDED NOT SET-OFF
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
103	(52)	(44)	59	(8)	-	473	(258)	(225)	248	(33)	-
<b>103</b>	<b>(52)</b>	<b>(44)</b>	<b>59</b>	<b>(8)</b>	-	<b>473</b>	<b>(258)</b>	<b>(225)</b>	<b>248</b>	<b>(33)</b>	-
589	(282)	(252)	337	(31)	-	1,190	(380)	(368)	822	(12)	-
<b>589</b>	<b>(282)</b>	<b>(252)</b>	<b>337</b>	<b>(31)</b>	-	<b>1,190</b>	<b>(380)</b>	<b>(368)</b>	<b>822</b>	<b>(12)</b>	-

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### a) Overview

The Portfolios' risks discussed below are:

- (i) Market risk - the risk of loss arising from exposure to interest rate risk, currency risk and/or equity price risk;
- (ii) Credit risk - the risk of loss arising from a counterparty failing to meet its contractual obligations; and
- (iii) Liquidity risk - the risk that the Portfolios are unable to meet payment obligations when due.

In the investment management of the Portfolios and the Portfolios' investments in the GISL trusts and the NZFS trusts, NZ Funds uses an active investment management approach. The active investment management approach seeks to maintain a balance between preserving capital and growing wealth in a manner that is consistent with each Portfolio's objective. This approach may expose the Portfolios to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by NZ Funds.

In the investment management of the Portfolios and the Portfolios' investments in the GISL trusts and the NZFS trusts, NZ Funds may take a wide variety of actions. These actions may include, but are not limited to: altering the proportion invested in each security or asset class; altering the manner in which a Portfolio is exposed to each security or asset class; investing directly or indirectly; using derivatives and/or collective investment vehicles; applying hedging; taking short positions; or using leverage. This is referred to as active investment management.

An active investment management approach is subject to different risks (which may be considered higher risks) than a non-active investment management approach. As a result, the active investment management approach may cause the returns and capital stability of a Portfolio to significantly differ from the returns and capital stability of the underlying securities or asset classes utilised, and/or any benchmark index.

The way in which the active investment management approach is implemented will change. This will result in the Portfolios ultimately being constructed with different combinations of assets, underlying investment managers and investment strategies. In order to allow these changes to occur, each Portfolio requires a wide investment mandate. The Trust Deeds provide that the Portfolios may ultimately invest in a very wide range of assets.

NZ Funds has developed internal investment guidelines as part of its investment management process which assist in the oversight of each Portfolio. These guidelines are designed to ensure that each Portfolio invests in accordance with its investment objective and risk profile.

Due to NZ Funds' active investment management approach, the guidelines may be exceeded from time to time. Where this occurs, the Portfolio is either realigned to come within the guidelines, or the guidelines are changed to reflect a change in the implementation of NZ Funds' active investment management of the Portfolio. It is therefore anticipated that the guidelines will change.

The Portfolios invest substantially all of their assets in the GISL trusts and/or the NZFS trusts. This may expose the Portfolios to concentration risk. Please refer to Note 19 *Related party*.

### b) Risk mitigation structure

The responsibility for the Portfolios' risk management lies with NZ Funds which, at reporting date, has delegated certain aspects to committees, meetings and individuals as set out below:

- (i) Investment Committee - reports to the NZ Funds Board, with the purpose of overseeing the NZ Funds' investment process, including responsibility for formulating and approving the Portfolios' internal investment guidelines, identifying and monitoring investment risks, and monitoring investment performance.
- (ii) Investment Guidelines Meeting - reports to the Investment Committee, responsible for oversight of investment policies and internal investment guidelines.
- (iii) Portfolio Management Meeting - reports to the Investment Committee, responsible for discussing and reviewing Portfolios' construction.
- (iv) Research meeting - reports to the Investment Committee, responsible for discussing and reviewing security research.
- (v) Business Risk Committee - reports to the NZ Funds Board, with the purpose of overseeing the NZ Funds' operational risk management process, including responsibility for reviewing and monitoring operational risk and compliance in relation to the provision of advice, portfolio valuation and pricing, registry services, infrastructure and operations, and NZ Funds' workplace.
- (vi) Offer and Audit Committee - reports to the NZ Funds Board, with the purpose of overseeing the NZ Funds' offering of securities to the public, the integrity of fund financial management and reporting, and the fund external audit process, including responsibility for all regulated communications.
- (vii) Portfolio Managers - responsible for identifying and managing investment risks within each Portfolio's internal investment guidelines.

### c) Risk measurement

The Portfolios' risks are measured by:

- (i) Using an assessment of the expected loss likely to arise for a given market movement; and/or
- (ii) Using actual historical volatility of the Portfolios; and/or
- (iii) Using statistical modelling which may or may not be adjusted for NZ Funds' active investment management approach; and/or
- (iv) Using practical industry or corporate knowledge.

### d) Market risk

Market risk is the risk of loss arising from exposure to interest rate risk, currency risk and/or equity price risk. Market risk is incurred by the Portfolios through trading activities and holding financial instruments. A transaction may be exposed to a number of market risks.

The Portfolios' investments in the GISL trusts and the NZFS trusts are treated as equity instruments, therefore the Portfolios are exposed to equity price risk. However, the underlying financial instruments of the GISL trusts and the NZFS trusts frequently include financial instruments that are not equity instruments. Consequently, the Portfolios are likely to be indirectly exposed to a variety of risks other than equity price risk. It is determined that these indirect exposures are captured in the equity price risk disclosure. It is also determined that credit risk arising on equity instrument exposure is captured in the equity price risk disclosure.

In incurring market risk, the Portfolios and the Portfolios' investments in the GISL trusts and the NZFS trusts, may use an active investment management approach. This may expose the Portfolios to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by NZ Funds. Additionally, the Portfolios' ability to directly or indirectly use leverage, and/or derivatives, and/or take short positions may increase these risks.

Concentration of market risk could exist if the Portfolios have significant positions in a single financial instrument, or aggregate positions in several financial instruments. The Portfolios' exposure to investments in the GISL trusts and the NZFS trusts is set out in Note 19 *Related party*.

Market risk is measured as per 10(c) and mitigated as per 10(b).

#### (i) Interest rate risk

Interest rate risk is the risk of loss arising from exposure to interest rates. Interest rate risk is incurred by the Portfolios through trading activities and holding financial instruments.

In incurring interest rate risk, the Portfolios and the Portfolios' investments in the GISL trusts and the NZFS trusts, may use an active investment management approach. This may expose the Portfolios to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by NZ Funds. Additionally, the Portfolios' ability to directly or indirectly use leverage, and/or derivatives, and/or take short positions may increase these risks.

Sensitivity to interest rate risk is expressed as the impact on carrying values of a 0.5% change in interest rates (2015: 0.1%). This sensitivity has been calculated using the historical volatility of New Zealand short-term interest rates, and a one standard deviation move is assumed.

Concentration of interest rate risk could exist if the Portfolios have significant positions in a single financial instrument exposed to interest rate risk, or aggregate positions in several financial instruments exposed to interest rate risk.

Interest rate risk is measured as per 10(c) and mitigated as per 10(b).

<b>DIRECT EXPOSURE OF FINANCIAL INSTRUMENTS TO INTEREST RATE RISK</b>	<b>2016</b>	<b>2015</b>
	<b>¥000</b>	<b>¥000</b>
Core Cash Portfolio	914	762
Core Income Portfolio	2,288	447
Global Income Portfolio	603	491
Core Inflation Portfolio	6,530	1,203
Property Inflation Portfolio	185	808
Equity Inflation Portfolio	707	658
Core Growth Portfolio	1,032	1,142
Global Multi-Asset Growth Portfolio	1,431	484
Global Equity Growth Portfolio	456	511
Dividend and Growth Portfolio	219	206
Capital Opportunities Portfolio	126	66

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

INCREASE/(DECREASE) IN COMPREHENSIVE INCOME AND UNITHOLDERS' FUNDS BASED ON THE ESTIMATED INTEREST INCOME MOVEMENT	\$ IMPACT GIVEN 0.5% INCREASE IN RATES	\$ IMPACT GIVEN 0.5% DECREASE IN RATES	\$ IMPACT GIVEN 0.1% INCREASE IN RATES	\$ IMPACT GIVEN 0.1% DECREASE IN RATES
	2016 \$000	2016 \$000	2015 \$000	2015 \$000
Core Cash Portfolio	5	(5)	1	(1)
Core Income Portfolio	11	(11)	-	-
Global Income Portfolio	3	(3)	-	-
Core Inflation Portfolio	33	(33)	1	(1)
Property Inflation Portfolio	1	(1)	1	(1)
Equity Inflation Portfolio	4	(4)	1	(1)
Core Growth Portfolio	5	(5)	1	(1)
Global Multi-Asset Growth Portfolio	7	(7)	-	-
Global Equity Growth Portfolio	2	(2)	1	(1)
Dividend and Growth Portfolio	1	(1)	-	-
Capital Opportunities Portfolio	1	(1)	-	-

Actual trading results are likely to differ from the sensitivity analysis required by NZ IFRS 7 *Financial Instruments: Disclosures* and the differences could be significant.



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# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### (ii) Currency risk

Currency risk is the risk of loss arising from exposure to foreign currency. Currency risk is incurred by the Portfolios through trading activities and holding financial instruments.

In incurring currency risk, the Portfolios and the Portfolios' investments in the GISL trusts and the NZFS trusts, may use an active investment management approach. This may expose the Portfolios to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by NZ Funds. Additionally, the Portfolios' ability to directly or indirectly use leverage, and/or derivatives, and/or take short positions may increase these risks.

Sensitivity to currency risk is expressed as the impact on carrying values of a 11.9% (2015: 10.0%) change in exchange rates. This sensitivity has been calculated using the historical volatility of NZD, and a one standard deviation move is assumed.

Concentration of currency risk could exist if the Portfolios have significant positions in a single financial instrument exposed to currency risk, or aggregate positions in several financial instruments exposed to currency risk.

Currency risk is measured as per 10(c) and mitigated as per 10(b).

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>DIRECT CURRENCY EXPOSURE (IN NZD EQUIVALENT)</b>										
Australian Dollars	-	-	-	-	-	-	-	-	-	-
British Pound	-	-	-	-	-	-	-	-	-	-
Chinese Yuan	-	-	-	-	-	-	-	-	-	-
Euro	-	-	-	-	-	-	-	-	-	-
Japanese Yen	-	-	-	-	-	-	-	-	-	-
U.S. Dollars	-	-	-	-	-	-	-	-	-	-
<b>TOTAL CURRENCY EXPOSURE</b>	-	-	-	-	-	-	-	-	-	-
Total currency hedging	-	-	-	-	-	-	-	-	-	-
<b>NET CURRENCY EXPOSURE - NET TOTAL OF LONG AND (SHORT) CURRENCIES</b>	-	-	-	-	-	-	-	-	-	-
\$ impact on Comprehensive Income and Unitholders' Funds given an 11.9% (2015: 10.0%) increase in exchange rates	-	-	-	-	-	-	-	-	-	-
\$ impact on Comprehensive Income and Unitholders' Funds given an 11.9% (2015: 10.0%) decrease in exchange rates	-	-	-	-	-	-	-	-	-	-
<b>GROSS CURRENCY EXPOSURE - ABSOLUTE TOTAL OF LONG AND (SHORT) CURRENCIES</b>	-	-	-	-	-	-	-	-	-	-
\$ impact on Comprehensive Income and Unitholders' Funds given an 11.9% (2015: 10.0%) increase in exchange rates	-	-	-	-	-	-	-	-	-	-
\$ impact on Comprehensive Income and Unitholders' Funds given an 11.9% (2015: 10.0%) decrease in exchange rates	-	-	-	-	-	-	-	-	-	-

Actual trading results are likely to differ from the sensitivity analysis required by NZ IFRS 7 *Financial Instruments: Disclosures* and the differences could be significant.

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
-	(1,630)	1,123	(19,357)	-	(2,547)	-	(7,233)	-	-	-	-
941	-	(1,659)	(1,577)	-	-	(633)	(602)	-	-	-	-
-	-	(10,591)	-	-	-	-	-	-	-	-	-
-	-	(5,750)	(8,446)	137	-	(955)	(1,324)	-	-	-	-
-	-	(1,570)	(2,830)	(86)	-	(943)	(1,127)	-	-	-	-
(5,954)	2,783	16,299	36,316	(6,667)	2,114	(2,838)	12,556	-	-	-	-
<b>(5,013)</b>	<b>1,153</b>	<b>(2,148)</b>	<b>4,106</b>	<b>(6,616)</b>	<b>(433)</b>	<b>(5,369)</b>	<b>2,270</b>	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
<b>(5,013)</b>	<b>1,153</b>	<b>(2,148)</b>	<b>4,106</b>	<b>(6,616)</b>	<b>(433)</b>	<b>(5,369)</b>	<b>2,270</b>	-	-	-	-
(597)	115	(256)	411	(787)	(43)	(639)	227	-	-	-	-
597	(115)	256	(411)	787	43	639	(227)	-	-	-	-
<b>6,895</b>	<b>4,413</b>	<b>36,992</b>	<b>68,526</b>	<b>6,890</b>	<b>4,661</b>	<b>5,369</b>	<b>22,842</b>	-	-	-	-
821	441	4,402	6,853	820	466	639	2,284	-	-	-	-
(821)	(441)	(4,402)	(6,853)	(820)	(466)	(639)	(2,284)	-	-	-	-

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### (iii) Equity price risk

Equity price risk is the risk of loss arising from exposure to equity prices. Equity price risk is incurred by the Portfolios through trading activities and holding financial instruments.

The Portfolios' investments in the GISL trusts and the NZFS trusts are treated as equity instruments, therefore the Portfolios are exposed to equity price risk. However, the underlying financial instruments of the GISL trusts and the NZFS trusts frequently include financial instruments that are not equity instruments. Consequently, the Portfolios are likely to be indirectly exposed to a variety of risks other than equity price risk. It is determined that these indirect exposures are captured in the equity price risk disclosure. It is also determined that credit risk arising on equity instrument exposure is captured in the equity price risk disclosure.

In incurring equity price risk, the Portfolios and the Portfolios' investments in the GISL trusts and the NZFS trusts, may use an active investment management approach. This may expose the Portfolios to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by NZ Funds. Additionally, the Portfolios' ability to directly or indirectly use leverage, and/or derivatives, and/or take short positions may increase these risks.

Sensitivity to equity price risk is expressed as the impact on carrying values of a range of changes in equity prices, as set out below in the table Increase/(Decrease) in Comprehensive Income and Unitholders' Funds Based on the Estimated Equity Price Movement. This sensitivity has been calculated using the historical volatility of the asset classes that the Portfolios have indirectly invested into, and a one standard deviation move is assumed.

Concentration of equity price risk could exist if the Portfolios have significant positions in a single financial instrument exposed to equity price risk, or aggregate positions in several financial instruments exposed to equity price risk. The Portfolios' exposure to investments in the GISL trusts and the NZFS trusts are set out in Note 19 *Related party*. The GISL trusts and NZFS trusts are domiciled in Australia and New Zealand respectively.

Equity price risk is measured as per 10(c) and mitigated as per 10(b).

<b>EXPOSURE OF FINANCIAL INSTRUMENTS TO EQUITY PRICE RISK</b>	<b>2016 \$000</b>	<b>2015 \$000</b>
Core Cash Portfolio	52,934	39,305
Core Income Portfolio	117,021	104,843
Global Income Portfolio	106,967	90,252
Core Inflation Portfolio	133,401	137,744
Property Inflation Portfolio	71,050	65,897
Equity Inflation Portfolio	69,460	65,974
Core Growth Portfolio	100,600	118,582
Global Multi-Asset Growth Portfolio	31,091	33,769
Global Equity Growth Portfolio	49,321	60,839
Dividend and Growth Portfolio	55,782	53,836
Capital Opportunities Portfolio	4,910	6,708

INCREASE/(DECREASE) IN COMPREHENSIVE INCOME AND UNITHOLDERS' FUNDS BASED ON THE ESTIMATED EQUITY PRICE MOVEMENT	CHANGE IN EQUITY PRICE RELATIVE TO EXPOSURE TO EQUITY PRICE RISK	\$ IMPACT GIVEN MARKET PRICES INCREASE	\$ IMPACT GIVEN MARKET PRICES DECREASE	CHANGE IN EQUITY PRICE RELATIVE TO EXPOSURE TO EQUITY PRICE RISK	\$ IMPACT GIVEN MARKET PRICES INCREASE	\$ IMPACT GIVEN MARKET PRICES DECREASE
	2016 %	2016 \$000	2016 \$000	2015 %	2015 \$000	2015 \$000
Core Cash Portfolio	0.5	265	(265)	0.1	39	(39)
Core Income Portfolio	4.2	4,915	(4,915)	4.3	4,508	(4,508)
Global Income Portfolio	3.8	4,065	(4,065)	2.6	2,347	(2,347)
Core Inflation Portfolio	8.2	10,939	(10,939)	8.0	11,020	(11,020)
Property Inflation Portfolio	8.8	6,252	(6,252)	7.3	4,810	(4,810)
Equity Inflation Portfolio	8.7	6,043	(6,043)	6.4	4,222	(4,222)
Core Growth Portfolio	11.3	11,368	(11,368)	12.1	14,348	(14,348)
Global Multi-Asset Growth Portfolio	13.0	4,042	(4,042)	12.9	4,356	(4,356)
Global Equity Growth Portfolio	11.0	5,425	(5,425)	9.9	6,023	(6,023)
Dividend and Growth Portfolio	11.4	6,359	(6,359)	8.3	4,468	(4,468)
Capital Opportunities Portfolio	14.5	712	(712)	17.7	1,187	(1,187)

Actual trading results are likely to differ from the sensitivity analysis required by NZ IFRS 7 *Financial Instruments: Disclosures* and the differences could be significant.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### e) Credit risk

Credit risk is the risk of loss arising from exposure to counterparties. Credit risk is incurred by the Portfolios through trading activities and holding financial instruments. The Portfolios' ability to directly or indirectly use leverage, and/or derivatives, and/or take short positions may increase these risks.

For risk management purposes, credit risk arising on equity instruments is captured in the equity price risk exposure.

For derivatives, credit exposure takes into account netting agreements with individual counterparties which are shown on the Balance Sheet as assets and liabilities respectively.

Concentration of credit risk could exist if the Portfolios have significant exposure to a single counterparty, or aggregate exposure to several counterparties. For risk management purposes, the Portfolios' credit exposure to investments in the GISL trusts and the NZFS trusts set out in Note 19 *Related party*, is considered equity price risk and is captured in the equity price risk exposure.

Credit risk is measured as per 10(c) and mitigated as per 10(b).

The Portfolios have cash and cash equivalents with Westpac New Zealand Limited which has a Standard and Poor's short-term credit rating of A-1+. The Portfolios' derivatives instruments are currency forward contracts with Westpac Banking Corporation which has a Standard and Poor's short-term credit rating of A-1+. Remaining assets are with unrated counterparties.

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>DIRECT CREDIT RISK</b>										
<i>Breakdown of credit exposure</i>										
Cash and cash equivalents	914	762	2,288	447	603	491	6,530	1,203	185	808
Receivables	119	53	409	212	480	148	927	48	59	110
Derivative instruments	-	-	-	-	-	-	-	-	-	-
Margin accounts	-	-	-	-	-	-	-	-	-	-
<b>TOTAL CREDIT EXPOSURE NET OF PROVISION FOR IMPAIRMENT</b>	<b>1,033</b>	<b>815</b>	<b>2,697</b>	<b>659</b>	<b>1,083</b>	<b>639</b>	<b>7,457</b>	<b>1,251</b>	<b>244</b>	<b>918</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
707	658	1,032	1,142	1,431	484	456	511	219	206	126	66
200	126	479	737	66	227	651	299	129	21	58	13
188	197	1,181	3,052	59	337	248	822	-	-	-	-
-	-	1	517	-	-	-	-	-	-	-	-
<b>1,095</b>	<b>981</b>	<b>2,693</b>	<b>5,448</b>	<b>1,556</b>	<b>1,048</b>	<b>1,355</b>	<b>1,632</b>	<b>348</b>	<b>227</b>	<b>184</b>	<b>79</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### (f) Liquidity risk

Liquidity risk is the risk that the Portfolios are unable to meet payment obligations when due. Liquidity risk is incurred by the Portfolios through trading activities and holding financial instruments.

The Portfolios are exposed to liquidity risk because of the possibility that the Portfolios could be required to pay their liabilities or redeem their units earlier than expected, and/or because the Portfolios' financial instruments are not saleable within a given timeframe, and/or because the Portfolios' financial instruments are not saleable for fair value within a given timeframe. The Portfolios are exposed to unit redemptions on a regular basis. Additionally, the Portfolios' ability to directly or indirectly use leverage, and/or derivatives, and/or take short positions may increase these risks.

As set out in Note 12 *Units on issue*, clients in certain Portfolios are required to give prior notification of an intention to redeem.

Concentration of liquidity risk could exist if the Portfolios have significant positions in a single financial instrument or counterparty, or aggregate positions in several financial instruments or counterparties which become illiquid. The Portfolios' exposure to investments in the GISL trusts and the NZFS trusts are set out in Note 19 *Related party*.

Liquidity risk is measured as per 10(c) and mitigated as per 10(b).

#### (i) Financial assets

The maturity groupings are based on the earlier of either the remaining period from the end of the year to the contractual maturity date, or the expected date by which an asset will be realised.

#### (ii) Financial liabilities

The maturity groupings are based on the earlier of either the remaining period from the end of the year to the contractual maturity date, or, where counterparties have a choice of when an amount is to be paid, the earliest period by which a Portfolio can be required to pay.

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
CONTRACTUAL MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>FINANCIAL ASSETS</b>										
<i>On demand/within 30 days</i>										
Cash and cash equivalents	914	762	2,288	447	603	491	6,530	1,203	185	808
Receivables	119	53	409	212	480	148	927	48	59	110
Trading portfolio assets	52,934	39,305	117,021	104,843	106,967	90,252	133,401	137,744	71,050	65,897
<i>Due within 12 months</i>										
Receivables	-	-	-	-	-	-	-	-	-	-
Derivative instruments	-	-	-	-	-	-	-	-	-	-
Margin accounts	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>53,967</b>	<b>40,120</b>	<b>119,718</b>	<b>105,502</b>	<b>108,050</b>	<b>90,891</b>	<b>140,858</b>	<b>138,995</b>	<b>71,294</b>	<b>66,815</b>
<b>FINANCIAL LIABILITIES</b>										
<i>On demand/within 30 days</i>										
Payables	199	448	654	376	709	264	1,320	458	242	314
<i>Due within 12 months</i>										
Payables	-	-	-	-	-	-	-	-	-	-
Derivative instruments	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>199</b>	<b>448</b>	<b>654</b>	<b>376</b>	<b>709</b>	<b>264</b>	<b>1,320</b>	<b>458</b>	<b>242</b>	<b>314</b>



EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
707	658	1,032	1,142	1,431	484	456	511	219	206	126	66
200	126	164	737	66	227	46	299	129	21	58	13
69,460	65,974	100,600	118,582	31,091	33,769	49,321	60,839	55,782	53,836	4,910	6,708
-	-	315	-	-	-	605	-	-	-	-	-
188	197	1,181	3,052	59	337	248	822	-	-	-	-
-	-	1	517	-	-	-	-	-	-	-	-
<b>70,555</b>	<b>66,955</b>	<b>103,293</b>	<b>124,030</b>	<b>32,647</b>	<b>34,817</b>	<b>50,676</b>	<b>62,471</b>	<b>56,130</b>	<b>54,063</b>	<b>5,094</b>	<b>6,787</b>
376	319	371	1,017	131	302	138	410	248	142	67	38
-	-	-	896	-	-	-	557	139	274	-	-
7	54	1,466	29	8	31	33	12	-	-	-	-
<b>383</b>	<b>373</b>	<b>1,837</b>	<b>1,942</b>	<b>139</b>	<b>333</b>	<b>171</b>	<b>979</b>	<b>387</b>	<b>416</b>	<b>67</b>	<b>38</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 11. USE OF ESTIMATES AND VALUATION OF FINANCIAL INSTRUMENTS

### FAIR VALUE BASIS

#### Financial assets and liabilities recorded at fair value

Assets in the Portfolios' trading portfolios and derivative instruments are recorded at fair value on the Balance Sheet, with changes in fair value recorded as net trading gains/(losses) in the Statement of Comprehensive Income. While in some cases, a degree of judgement is required in establishing fair values, NZ Funds believes the fair values recorded in the Balance Sheet and the changes in fair values recorded in the Statement of Comprehensive Income are based on the policies and processes that NZ Funds employs.

According to NZ IFRS 13 *Fair Value Measurement*, a three level hierarchy of disclosures is required for financial instruments measured at fair value. The three levels are defined below:

- (i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities; or
- (ii) Level 2: inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (e.g. as prices) or indirectly (e.g. derived from prices); or
- (iii) Level 3: inputs for the asset or liability that are not based on observable market data.

The Portfolios have direct investments in trading portfolio assets and derivative instruments of which fair values are classified as Level 2. The Portfolios do not have direct investments in financial instruments classified as either Level 1 or Level 3. There were no transfers between Level 1, Level 2 and Level 3 during the year.

### LEVEL 2 INVESTMENTS

- (i) The Portfolios' trading portfolio assets include investments in unlisted unit trusts which are not quoted in an active market. Investments in these unit trusts are valued based on the Net Asset Value per unit calculated by the administrator or manager of these unit trusts on a regular basis.
- (ii) OTC foreign exchange forward contracts are valued using widely recognised valuation models. The inputs into those models are market observable and are therefore included within Level 2.

Due to the short-term nature of financial assets and liabilities recorded at amortised cost, it is assumed that the carrying amount of these instruments approximates their fair value.

The following tables show financial instruments recognised at fair value, analysed for those whose fair value is based on Level 2:

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>FAIR VALUE BASIS</b>										
<b>LEVEL 2 INVESTMENTS</b>										
<i>Financial assets designated at fair value through profit or loss:</i>										
(i) Trading portfolio assets										
Unlisted unit trusts	52,934	39,305	117,021	104,843	106,967	90,252	133,401	137,744	71,050	65,897
(ii) Derivative instruments										
Foreign exchange forwards	-	-	-	-	-	-	-	-	-	-
<i>Financial liabilities designated at fair value through profit or loss:</i>										
(i) Derivative instruments										
Foreign exchange forwards	-	-	-	-	-	-	-	-	-	-

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
69,460	65,974	100,600	118,582	31,091	33,769	49,321	60,839	55,782	53,836	4,910	6,708
188	197	1,181	3,052	59	337	248	822	-	-	-	-
(7)	(54)	(1,466)	(29)	(8)	(31)	(33)	(12)	-	-	-	-

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 12. UNITS ON ISSUE

Unitholders' Funds as outlined below are defined as puttable instruments, which are classified as equity, in the context of NZ IAS 32 *Financial Instruments: Presentation*.

Redemptions by clients in the Core Cash Portfolio are usually paid within four business days of receipt of notice.

Clients in the Core Income Portfolio, the Global Income Portfolio, the Core Inflation Portfolio, the Property Inflation Portfolio, the Equity Inflation Portfolio, the Core Growth Portfolio, the Global Multi-Asset Growth Portfolio, the Global Equity Growth Portfolio and the Dividend and Growth Portfolio are required to give 63 days prior notice of an intention to redeem or switch their investment. The 63 day notice period will not apply to units in the Core Inflation Portfolio and the Equity Inflation Portfolio that were subscribed to before 31 October 2008.

Clients in the Capital Opportunities Portfolio must give 91 days prior notice of an intention to redeem or switch their investment. In addition, redemptions and switches from this Portfolio are only permitted to occur on certain redemption dates set by NZ Funds from time to time.

Redemptions are usually paid within four business days after the expiry of the relevant notice periods, or redemption date.

However, the Trust Deeds provide for a redemption payment period of up to 20 business days. The Trust Deeds also permit NZ Funds to prescribe additional limitations, restrictions and prohibitions on withdrawals.

The total expected cash outflow on redemption equals the amount of the unitholders' funds for each Portfolio.

The table below shows the movements of units on issue:

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2016 000	2015 000	2016 000	2015 000	2016 000	2015 000	2016 000	2015 000	2016 000	2015 000
<b>UNITS ON ISSUE</b>										
Units on issue at the beginning of the year	31,436	33,438	78,144	73,591	68,274	61,149	103,794	102,558	45,845	45,200
Units issued	42,137	27,638	18,185	16,048	17,316	15,053	17,184	15,195	6,961	6,708
Units redeemed	(32,217)	(29,640)	(10,492)	(11,495)	(7,135)	(7,928)	(11,229)	(13,959)	(5,429)	(6,063)
<b>UNITS ON ISSUE AT THE END OF THE YEAR</b>	<b>41,356</b>	<b>31,436</b>	<b>85,837</b>	<b>78,144</b>	<b>78,455</b>	<b>68,274</b>	<b>109,749</b>	<b>103,794</b>	<b>47,377</b>	<b>45,845</b>
Represented by										
<b>TOTAL UNITHOLDERS' FUNDS (€000)</b>	<b>53,768</b>	<b>39,672</b>	<b>119,064</b>	<b>105,126</b>	<b>107,341</b>	<b>90,627</b>	<b>139,538</b>	<b>138,537</b>	<b>71,052</b>	<b>66,501</b>
<b>NET ASSET VALUE PER UNIT(€)</b>	<b>1.30</b>	<b>1.26</b>	<b>1.39</b>	<b>1.35</b>	<b>1.37</b>	<b>1.33</b>	<b>1.27</b>	<b>1.33</b>	<b>1.50</b>	<b>1.45</b>

None of the Portfolios made distributions during the year (2015: nil).

## 13. INTEREST REVENUE

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<i>Breakdown by asset classes</i>										
Cash and cash equivalents	23	18	22	28	13	24	31	29	15	16
<b>TOTAL INTEREST REVENUE</b>	<b>23</b>	<b>18</b>	<b>22</b>	<b>28</b>	<b>13</b>	<b>24</b>	<b>31</b>	<b>29</b>	<b>15</b>	<b>16</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 000	2015 000	2016 000	2015 000	2016 000	2015 000	2016 000	2015 000	2016 000	2015 000	2016 000	2015 000
77,341	74,762	83,503	91,836	50,618	49,553	42,155	47,464	38,247	39,988	3,258	4,514
12,578	12,555	9,661	8,644	15,594	8,959	4,021	3,997	3,873	4,347	182	144
(9,163)	(9,976)	(16,675)	(16,977)	(7,798)	(7,894)	(8,108)	(9,306)	(5,975)	(6,088)	(765)	(1,400)
<b>80,756</b>	<b>77,341</b>	<b>76,489</b>	<b>83,503</b>	<b>58,414</b>	<b>50,618</b>	<b>38,068</b>	<b>42,155</b>	<b>36,145</b>	<b>38,247</b>	<b>2,675</b>	<b>3,258</b>
<b>70,172</b>	<b>66,582</b>	<b>101,456</b>	<b>122,088</b>	<b>32,508</b>	<b>34,484</b>	<b>50,505</b>	<b>61,492</b>	<b>55,743</b>	<b>53,647</b>	<b>5,027</b>	<b>6,749</b>
<b>0.87</b>	<b>0.86</b>	<b>1.33</b>	<b>1.46</b>	<b>0.56</b>	<b>0.68</b>	<b>1.33</b>	<b>1.46</b>	<b>1.54</b>	<b>1.40</b>	<b>1.88</b>	<b>2.07</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
17	16	67	43	21	15	45	21	4	5	2	4
<b>17</b>	<b>16</b>	<b>67</b>	<b>43</b>	<b>21</b>	<b>15</b>	<b>45</b>	<b>21</b>	<b>4</b>	<b>5</b>	<b>2</b>	<b>4</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 14. NET TRADING GAINS/(LOSSES)

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Trading portfolio assets	1,479	1,495	4,577	6,735	4,179	4,020	(5,047)	9,408	3,740	9,646
Derivative instruments	-	-	-	-	-	-	-	-	-	-
<b>TOTAL NET TRADING GAINS/(LOSSES)</b>	<b>1,479</b>	<b>1,495</b>	<b>4,577</b>	<b>6,735</b>	<b>4,179</b>	<b>4,020</b>	<b>(5,047)</b>	<b>9,408</b>	<b>3,740</b>	<b>9,646</b>

## 15. AUDIT AND PROFESSIONAL FEES

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<i>Fees to auditors:</i>										
Audit fees	8	8	16	17	15	16	16	17	10	11
Other professional fees	1	3	2	7	1	7	2	10	1	4
<b>TOTAL AUDIT AND PROFESSIONAL FEES</b>	<b>9</b>	<b>11</b>	<b>18</b>	<b>24</b>	<b>16</b>	<b>23</b>	<b>18</b>	<b>27</b>	<b>11</b>	<b>15</b>

## 16. FEES AND REIMBURSABLE EXPENSES

	NOTE	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
		2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Trustee fees	20	16	14	37	32	33	27	46	43	23	20
Management fees, performance fees and reimbursable expenses	19	88	79	1,061	922	878	752	2,643	2,434	1,378	1,213
<b>TOTAL FEES AND REIMBURSABLE EXPENSES</b>		<b>104</b>	<b>93</b>	<b>1,098</b>	<b>954</b>	<b>911</b>	<b>779</b>	<b>2,689</b>	<b>2,477</b>	<b>1,401</b>	<b>1,233</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
511	4,480	(17,941)	1,295	(7,002)	(7,104)	(11,522)	7,094	6,341	9,497	(448)	955
546	544	1,271	4,151	804	627	927	1,752	-	-	-	-
<b>1,057</b>	<b>5,024</b>	<b>(16,670)</b>	<b>5,446</b>	<b>(6,198)</b>	<b>(6,477)</b>	<b>(10,595)</b>	<b>8,846</b>	<b>6,341</b>	<b>9,497</b>	<b>(448)</b>	<b>955</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
10	11	16	17	7	7	9	10	8	9	1	1
1	5	2	13	-	5	1	6	1	6	1	1
<b>11</b>	<b>16</b>	<b>18</b>	<b>30</b>	<b>7</b>	<b>12</b>	<b>10</b>	<b>16</b>	<b>9</b>	<b>15</b>	<b>2</b>	<b>2</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
23	20	38	38	11	12	19	18	17	16	2	3
1,313	1,182	997	4,049	641	803	7	2,357	1,285	1,612	84	171
<b>1,336</b>	<b>1,202</b>	<b>1,035</b>	<b>4,087</b>	<b>652</b>	<b>815</b>	<b>26</b>	<b>2,375</b>	<b>1,302</b>	<b>1,628</b>	<b>86</b>	<b>174</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 17. PAYABLES

	NOTE	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
		2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Accruals		7	7	16	16	14	14	16	15	10	10
Management fees, performance fees and reimbursable expenses payables	19	11	10	109	92	97	66	264	240	127	119
PIE tax payable to the IRD on behalf of unitholders		58	53	399	211	476	137	-	47	-	110
PIE tax rebates payable to unitholders		-	-	-	-	-	-	923	-	57	-
Redemptions, unapplied money and other payables		121	377	127	54	119	44	113	152	46	73
Trustee fees payable	20	2	1	3	3	3	3	4	4	2	2
<b>TOTAL PAYABLES</b>		<b>199</b>	<b>448</b>	<b>654</b>	<b>376</b>	<b>709</b>	<b>264</b>	<b>1,320</b>	<b>458</b>	<b>242</b>	<b>314</b>

## 18. TAXATION

### a) Portfolio investment entity regime

Throughout the year, the Portfolios maintained their status as PIEs.

### b) Income tax expense and deferred tax

Under the PIE regime detailed in the Income Tax Act 2007, income is effectively taxed in the hands of the unitholders and therefore income tax expense is not recognised in the Portfolios. The tax liability arising on income is allocated to unitholders and satisfied either by the cancellation of their units held in the Portfolios, or by the unitholders personally. As a consequence, deferred tax is not recognised.

Net taxation receivable or payable on behalf of the unitholders under the PIE regime is recognised on the Balance Sheet. Refer to Note 7 *Receivables* and Note 17 *Payables* for details.

### c) Formation losses

The Equity Inflation Portfolio has formation losses available during the year. Formation losses are firstly used to offset any taxable income derived daily from the Equity Inflation Portfolio. Any remaining income is then attributed to unitholders. Unused formation losses are rolled forward to subsequent days.

The opening and closing balances of formation losses, and losses used during the year, are detailed below.

FORMATION LOSSES	OPENING BALANCE	LOSSES USED	CLOSING BALANCE	OPENING BALANCE	LOSSES USED	CLOSING BALANCE
	01/04/15 \$000	\$000	31/03/16 \$000	01/04/14 \$000	\$000	31/03/15 \$000
Equity Inflation Portfolio	15,409	(5,250)	10,159	19,273	(3,864)	15,409



EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
10	10	15	15	5	6	8	9	7	8	1	2
121	115	182	1,138	53	64	81	651	247	379	8	23
-	-	-	733	65	221	-	298	-	19	-	13
198	126	163	-	-	-	45	-	128	-	58	-
45	66	8	23	7	10	3	7	3	8	-	-
2	2	3	4	1	1	1	2	2	2	-	-
<b>376</b>	<b>319</b>	<b>371</b>	<b>1,913</b>	<b>131</b>	<b>302</b>	<b>138</b>	<b>967</b>	<b>387</b>	<b>416</b>	<b>67</b>	<b>38</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 19. RELATED PARTY

### a) Overview

NZ Funds is the manager, issuer, promoter and administration manager of the Portfolios. NZ Funds' senior management are significant indirect shareholders in NZ Funds.

### b) Underlying investment portfolios and their trustees

The Portfolios may invest into the GISL trusts and the NZFS trusts. The GISL trusts are Australian unit trusts for which NZ Funds is the investment manager and Global Investment Services Limited is the trustee. NZ Funds' senior management are significant indirect shareholders in Global Investment Services Limited. The NZFS trusts are New Zealand unit trusts for which NZ Funds is the manager and New Zealand Funds Superannuation Limited is the trustee. New Zealand Funds Superannuation Limited is a wholly owned subsidiary of NZ Funds.

The Portfolios, the GISL Trusts and the NZFS Trusts are all governed by different Trust Deeds and are supervised by different Trustees. This means the Portfolios do not control any of the GISL Trusts or NZFS Trusts, and cannot make investment and/or administrative decisions for them, even if a Portfolio owns more than 50% of the units of a GISL Trust and/or NZFS Trust.

The gross value of investment transactions (including reinvested distributions) in the GISL trusts for the year and the balance of these investments are detailed in Table 1 as follows:

	PURCHASES		(REDEMPTIONS)		BALANCE OF INVESTMENTS	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Core Cash Portfolio	-	-	-	-	-	-
Core Income Portfolio	-	-	-	-	-	-
Global Income Portfolio	-	-	-	-	-	-
Core Inflation Portfolio	6,864	10,903	(6,034)	(10,950)	29,943	30,047
Property Inflation Portfolio	-	-	-	-	-	-
Equity Inflation Portfolio	11,666	7,062	(870)	(6,595)	30,176	19,906
Core Growth Portfolio	21,075	40,718	(26,886)	(17,339)	29,228	56,858
Global Multi-Asset Growth Portfolio	8,068	11,247	-	(245)	3,327	2,580
Global Equity Growth Portfolio	22,402	25,025	(14,557)	(14,674)	32,227	36,828
Dividend and Growth Portfolio	-	-	-	-	-	-
Capital Opportunities Portfolio	-	-	-	-	-	-

The gross value of investment transactions in the NZFS trusts for the year and the balance of these investments are detailed in Table 2 as follows:

	PURCHASES		(REDEMPTIONS)		BALANCE OF INVESTMENTS	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Core Cash Portfolio	17,800	3,850	(5,650)	(6,750)	52,934	39,305
Core Income Portfolio	8,950	6,100	(1,349)	(716)	117,021	104,843
Global Income Portfolio	19,988	9,850	(7,450)	(1,050)	106,967	90,252
Core Inflation Portfolio	50,635	34,018	(50,760)	(28,125)	103,458	107,697
Property Inflation Portfolio	3,045	860	(1,631)	(1,100)	71,050	65,897
Equity Inflation Portfolio	12,040	15,074	(21,210)	(9,950)	39,284	46,068
Core Growth Portfolio	65,640	30,703	(59,866)	(50,314)	71,372	61,724
Global Multi-Asset Growth Portfolio	25,200	11,382	(28,945)	(21,690)	27,764	31,189
Global Equity Growth Portfolio	12,250	9,768	(20,091)	(21,104)	17,094	24,011
Dividend and Growth Portfolio	705	550	(5,100)	(3,920)	55,782	53,836
Capital Opportunities Portfolio	290	410	(1,640)	(3,060)	4,910	6,708

### c) Investment transactions in the Private Loan Trust

Certain Portfolios contained in Table 2 invested in the Private Loan Trust, which was an NZFS trust that lent money to Fidelity Limited and its wholly owned subsidiary Workstation Property Limited. Two of the directors of NZ Funds' parent entity, Investment Group Holdings Limited, have an indirect shareholding in Fidelity Limited.

On 19 November 2015, the Private Loan Trust sold the Fidelity Limited and the Workstation Property Limited loans for a combined value of \$1,000,000. On 31 January 2016, the Private Loan Trust was terminated. The Portfolios fully redeemed from the Private Loan Trust prior to its termination.

The gross value of redemptions from the Private Loan Trust and the balance of investments are shown in Table 2A below:

	REDEMPTIONS		BALANCE OF INVESTMENTS	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Core Income Portfolio	(149)	(16)	-	331
Core Inflation Portfolio	(159)	(18)	-	354
Core Growth Portfolio	(318)	(35)	-	707
Global Multi-Asset Growth Portfolio	(55)	(6)	-	122
Global Equity Growth Portfolio	(199)	(22)	-	443

The figures in Table 2A are included within Table 2.

### d) Portfolio fees

During the year, the Portfolios incurred management fees (including performance fees if any) and expense reimbursements in accordance with the Trust Deeds, which were payable to NZ Funds. Where a Portfolio invested in the Private Loan Trust, an NZFS trust, it was the practice of NZ Funds since inception of this investment to rebate the management fees on the Portfolio's investment in the Private Loan Trust.

### e) Performance fee

The Core Growth Portfolio, the Global Multi-Asset Growth Portfolio, the Global Equity Growth Portfolio, the Dividend and Growth Portfolio and the Capital Opportunities Portfolio may be charged a performance fee by NZ Funds. The performance fee is equivalent to 10% of the returns of a Portfolio in a financial year ('Performance Year') that exceed the performance target. The performance target is 8%. The performance fee (if any) is calculated daily and reflected in the daily unit price of the Portfolio. It is based on the returns calculated on the total gross assets of the Portfolio.

NZ Funds may alter the performance fee payable by a Portfolio, including changing the performance target, at any time by providing one month's notice to all clients in the relevant Portfolio.

If in the financial year following a Performance Year ('Rebate Year'), a Portfolio's returns are less than 8% ('Rebate Target'), NZ Funds will rebate back to that Portfolio some or all of any performance fee charged to the Portfolio in the Performance Year. The amount of the rebate (if any) is equivalent to 10% of the returns of the Portfolio in the Rebate Year that are less than the Rebate Target, but will not be more than the performance fee paid (if any) by the Portfolio in the Performance Year. Any rebate is calculated daily and reflected in the daily unit price of the Portfolio. It is based on the returns calculated on the average total gross assets of the Portfolio.

The amount of any performance fee due by a Portfolio is paid quarterly. All performance fee amounts are paid to the Trustee who holds these amounts on trust until the end of the Rebate year. Where the amount paid by a Portfolio for previous quarters exceeds the amount due at the end of a quarter, the excess amount is refunded to the Portfolio by the Trustee. At the end of the Rebate Year, once all performance criteria have been met, the Trustee pays any performance fee amount to NZ Funds.

NZ Funds may alter the Rebate Target at any time by providing one month's notice to all clients in the relevant Portfolio. In certain circumstances NZ Funds or its associated entities may, in their absolute discretion and from their own funds, reduce, pay, contribute to or rebate some of the Portfolios' fees and expenses.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 19. RELATED PARTY (CONTINUED)

The management fees, performance fees, expense reimbursements and manager rebates incurred during the year are detailed in Table 3:

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Management fees incurred	73	64	911	792	803	679	2,455	2,333	1,213	1,092
Performance fees incurred/(rebated)	-	-	-	-	-	-	-	-	-	-
Expense reimbursements incurred	15	15	152	133	75	73	192	107	165	121
Manager rebates incurred	-	-	(2)	(3)	-	-	(4)	(6)	-	-
<b>TOTAL</b>	<b>88</b>	<b>79</b>	<b>1,061</b>	<b>922</b>	<b>878</b>	<b>752</b>	<b>2,643</b>	<b>2,434</b>	<b>1,378</b>	<b>1,213</b>

The outstanding management fees, performance fees, expense reimbursements and manager rebates as at 31 March 2016 and 31 March 2015 are payable or refundable on normal trading terms as detailed in Table 3A below.

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Management fees payable	7	5	82	72	73	62	207	208	105	100
Performance fees payable/(refundable) to/(from) the Trustee	-	-	-	-	-	-	-	-	-	-
Expense reimbursements payable	4	5	27	20	24	4	57	32	22	19
<b>TOTAL</b>	<b>11</b>	<b>10</b>	<b>109</b>	<b>92</b>	<b>97</b>	<b>66</b>	<b>264</b>	<b>240</b>	<b>127</b>	<b>119</b>

No related party debts were forgiven or written off during the year (2015: nil).

The Portfolios do not employ key management personnel. Management services are provided by NZ Funds. The following table is a summary of significant investment transactions in the Portfolios during the year, and the investment balances in the Portfolios as at 31 March 2016 and 31 March 2015, by key management personnel employed by NZ Funds and Investment Group Holdings Limited, the parent company of NZ Funds, and their close family members.

	BALANCE OF HOLDINGS		NET PURCHASES/(REDEMPTIONS)	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Core Cash Portfolio	799	1,008	(226)	(662)
Core Income Portfolio	233	77	(104)	63
Global Income Portfolio	230	73	(95)	(11)
Core Inflation Portfolio	407	201	(92)	17
Property Inflation Portfolio	205	90	(1)	(8)
Equity Inflation Portfolio	203	348	(178)	(4)
Core Growth Portfolio	185	192	16	35
Global Multi-Asset Growth Portfolio	49	35	24	16
Global Equity Growth Portfolio	46	49	2	6
Dividend and Growth Portfolio	50	278	(291)	9
Capital Opportunities Portfolio	-	-	-	(80)

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
1,214	1,096	2,031	2,061	600	673	1,003	998	936	892	104	137
-	-	(1,480)	1,480	-	-	(1,047)	1,237	116	506	(24)	24
99	86	454	520	74	132	65	130	233	214	5	10
-	-	(8)	(12)	(33)	(2)	(14)	(8)	-	-	(1)	-
<b>1,313</b>	<b>1,182</b>	<b>997</b>	<b>4,049</b>	<b>641</b>	<b>803</b>	<b>7</b>	<b>2,357</b>	<b>1,285</b>	<b>1,612</b>	<b>84</b>	<b>171</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO		CAPITAL OPPORTUNITIES PORTFOLIO	
2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
105	101	155	188	43	52	66	92	82	82	7	10
-	-	(315)	896	-	-	(605)	557	139	274	-	12
16	14	27	54	10	12	15	2	26	23	1	1
<b>121</b>	<b>115</b>	<b>(133)</b>	<b>1,138</b>	<b>53</b>	<b>64</b>	<b>(524)</b>	<b>651</b>	<b>247</b>	<b>379</b>	<b>8</b>	<b>23</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 20. TRUSTEES

On 27 November 2015, Corporate Trust Limited (trading as Foundation Corporate Trust) retired as the Trustee of the Portfolios, and The New Zealand Guardian Trust Company Limited was appointed as the Trustee of the Portfolios. Trustee fees incurred and outstanding are as follows:

	TRUSTEE FEES			
	INCURRED		PAYABLE	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Core Cash Portfolio	16	14	2	1
Core Income Portfolio	37	32	3	3
Global Income Portfolio	33	27	3	3
Core Inflation Portfolio	46	43	4	4
Property Inflation Portfolio	23	20	2	2
Equity Inflation Portfolio	23	20	2	2
Core Growth Portfolio	38	38	3	4
Global Multi-Asset Growth Portfolio	11	12	1	1
Global Equity Growth Portfolio	19	18	1	2
Dividend and Growth Portfolio	17	16	2	2
Capital Opportunities Portfolio	2	3	-	-

## 21. GUARANTEES

Guarantees were entered into by Corporate Trust Limited (trading as Foundation Corporate Trust) in its capacity as the Trustee of the Core Growth Portfolio, the Global Multi-Asset Growth Portfolio, and the Global Equity Growth Portfolio and NZ Funds in its capacity as the manager of the respective Portfolios were parties to guarantees, in favour of Citibank N.A. and Citigroup Global Markets Limited, guaranteeing the liabilities and obligations of these Portfolios' respective investments in certain GISL trusts. On Corporate Trust Limited's retirement as Trustee of the respective Portfolios, the guarantees were novated to The New Zealand Guardian Trust Company Limited. Note 8 *Trading portfolio assets* and Note 10 *Financial instrument and risk management* quantify the maximum financial exposure of the Portfolios.

## 22. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

No significant capital commitments or contingent liabilities exist as at 31 March 2016 (2015: nil) for any of the Portfolios.

## 23. CONCENTRATION OF FUNDING

The Portfolios are funded by the issue of units to unitholders, predominantly in New Zealand. The following types of entities have the following interests in Unitholders' Funds:

	INDIVIDUALS		OTHER CLIENTS	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Core Cash Portfolio	34,169	24,578	19,599	15,094
Core Income Portfolio	64,235	56,870	54,829	48,256
Global Income Portfolio	57,988	48,937	49,353	41,690
Core Inflation Portfolio	77,109	76,011	62,429	62,526
Property Inflation Portfolio	38,641	35,822	32,411	30,679
Equity Inflation Portfolio	37,913	35,602	32,259	30,980
Core Growth Portfolio	55,576	67,530	45,880	54,558
Global Multi-Asset Growth Portfolio	16,395	18,053	16,113	16,431
Global Equity Growth Portfolio	27,108	32,421	23,397	29,071
Dividend and Growth Portfolio	29,768	28,351	25,975	25,296
Capital Opportunities Portfolio	2,125	3,050	2,902	3,699

Other clients comprise companies, trusts and estates.

All units issued in each Portfolio rank equally with respect to any voting rights and rights to surpluses and distributions.

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#### 24. SUBSEQUENT EVENT

NZ Funds is currently considering the position of the Capital Opportunities Portfolio in the Managed Portfolio Service offer. This consideration may result in NZ Funds recommending the closure of the portfolio, subject to the passing of an extraordinary resolution of unit holders to effect this.

Other than specified above, there have been no subsequent events for the year ended 31 March 2016.

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