

# NZ Funds Managed Portfolio Service

**Financial Statements for the year ended 31 March 2017**





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## INDEPENDENT AUDITOR'S REPORT

### **Independent auditor's report to the Unitholders of the NZ Funds Managed Portfolio Service**

#### **Report on the audit of the financial statements**

##### **Opinion**

We have audited the financial statements of the Portfolios, detailed in Note 1 of the financial statements, on pages 4 to 45, which comprise the balance sheets of each of the Portfolios as at 31 March 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 4 to 45 present fairly, in all material respects, the financial position of each of the Portfolios as at 31 March 2017 and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the Unitholders as a body. 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.

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Portfolios in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

We 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.

##### **Information other than the financial statements and auditor's report**

Those charged with governance are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Those charged with governance responsibilities for the financial statements**

Those charged with Governance are responsible, on behalf of the Portfolios, for the preparation and fair presentation of the financial statements in accordance New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

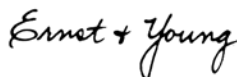
In preparing the financial statements, those charged with governance are responsible for assessing on behalf of the Portfolios, the Portfolios' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the Portfolios' or cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities>. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Bennett.



5 July 2017

Auckland

# Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2017

	NOTE	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
		2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
<b>REVENUE</b>											
Interest Revenue		21	23	12	22	13	13	20	31	17	15
Dividend Revenue		-	-	-	-	-	-	1,728	1,011	-	-
Net Trading Gains/(Losses)	13	1,200	1,479	5,677	4,577	5,196	4,179	7,238	(5,047)	3,021	3,740
Other Revenue		-	-	-	-	-	-	-	-	-	-
<b>TOTAL REVENUE</b>		<b>1,221</b>	<b>1,502</b>	<b>5,689</b>	<b>4,599</b>	<b>5,209</b>	<b>4,192</b>	<b>8,986</b>	<b>(4,005)</b>	<b>3,038</b>	<b>3,755</b>
<b>EXPENSES</b>											
Audit and Professional Fees	14	6	9	16	18	15	16	16	18	9	11
Fees and Reimbursable Expenses	15	121	104	1,244	1,098	1,176	911	2,700	2,689	1,492	1,401
Sundry Expenses		-	-	1	1	1	1	1	1	1	1
<b>TOTAL EXPENSES</b>		<b>127</b>	<b>113</b>	<b>1,261</b>	<b>1,117</b>	<b>1,192</b>	<b>928</b>	<b>2,717</b>	<b>2,708</b>	<b>1,502</b>	<b>1,413</b>
<b>NET PROFIT/(LOSS) BEFORE TAXATION</b>		<b>1,094</b>	<b>1,389</b>	<b>4,428</b>	<b>3,482</b>	<b>4,017</b>	<b>3,264</b>	<b>6,269</b>	<b>(6,713)</b>	<b>1,536</b>	<b>2,342</b>
Taxation Expense	17	-	-	-	-	-	-	-	-	-	-
<b>NET PROFIT/(LOSS) AFTER TAXATION</b>		<b>1,094</b>	<b>1,389</b>	<b>4,428</b>	<b>3,482</b>	<b>4,017</b>	<b>3,264</b>	<b>6,269</b>	<b>(6,713)</b>	<b>1,536</b>	<b>2,342</b>
Other Comprehensive Income		-	-	-	-	-	-	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>		<b>1,094</b>	<b>1,389</b>	<b>4,428</b>	<b>3,482</b>	<b>4,017</b>	<b>3,264</b>	<b>6,269</b>	<b>(6,713)</b>	<b>1,536</b>	<b>2,342</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
17	17	55	67	10	21	106	45	6	4
1,908	930	55	7,206	8	9	57	5,439	-	-
(1,257)	1,057	7,216	(16,670)	4,558	(6,198)	7,943	(10,595)	10,221	6,341
-	-	1	1	2	5	-	-	-	-
<b>668</b>	<b>2,004</b>	<b>7,327</b>	<b>(9,396)</b>	<b>4,578</b>	<b>(6,163)</b>	<b>8,106</b>	<b>(5,111)</b>	<b>10,227</b>	<b>6,345</b>
10	11	14	18	5	7	7	10	8	9
1,372	1,336	1,867	1,035	609	652	1,255	26	1,770	1,302
1	1	1	1	-	-	-	1	-	-
<b>1,383</b>	<b>1,348</b>	<b>1,882</b>	<b>1,054</b>	<b>614</b>	<b>659</b>	<b>1,262</b>	<b>37</b>	<b>1,778</b>	<b>1,311</b>
(715)	656	5,445	(10,450)	3,964	(6,822)	6,844	(5,148)	8,449	5,034
-	-	-	-	-	-	-	-	-	-
<b>(715)</b>	<b>656</b>	<b>5,445</b>	<b>(10,450)</b>	<b>3,964</b>	<b>(6,822)</b>	<b>6,844</b>	<b>(5,148)</b>	<b>8,449</b>	<b>5,034</b>
-	-	-	-	-	-	-	-	-	-
<b>(715)</b>	<b>656</b>	<b>5,445</b>	<b>(10,450)</b>	<b>3,964</b>	<b>(6,822)</b>	<b>6,844</b>	<b>(5,148)</b>	<b>8,449</b>	<b>5,034</b>

# Balance Sheet

AS AT 31 MARCH 2017

	NOTE	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
		2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
<b>UNITHOLDERS' FUNDS</b>	12	<b>58,595</b>	<b>53,768</b>	<b>126,987</b>	<b>119,064</b>	<b>116,621</b>	<b>107,341</b>	<b>126,672</b>	<b>139,538</b>	<b>83,180</b>	<b>71,052</b>
Represented by:											
<b>ASSETS</b>											
Cash and Cash Equivalents		514	914	496	2,288	780	603	154	6,530	3,434	185
Receivables	7	121	119	232	409	200	480	751	927	55	59
Trading Portfolio Assets	8, 11	58,234	52,934	126,648	117,021	115,968	106,967	126,309	133,401	79,868	71,050
Derivative Instruments	9, 11	-	-	-	-	-	-	-	-	-	-
Margin Accounts		-	-	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>		<b>58,869</b>	<b>53,967</b>	<b>127,376</b>	<b>119,718</b>	<b>116,948</b>	<b>108,050</b>	<b>127,214</b>	<b>140,858</b>	<b>83,357</b>	<b>71,294</b>
<b>LIABILITIES</b>											
Payables	16	274	199	389	654	327	709	542	1,320	177	242
Derivative Instruments	9, 11	-	-	-	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>		<b>274</b>	<b>199</b>	<b>389</b>	<b>654</b>	<b>327</b>	<b>709</b>	<b>542</b>	<b>1,320</b>	<b>177</b>	<b>242</b>
<b>NET ASSETS</b>		<b>58,595</b>	<b>53,768</b>	<b>126,987</b>	<b>119,064</b>	<b>116,621</b>	<b>107,341</b>	<b>126,672</b>	<b>139,538</b>	<b>83,180</b>	<b>71,052</b>

For and on behalf of the manager, New Zealand Funds Management Limited, who authorised the issue of these financial statements on 05 July 2017.



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	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
<b>81,068</b>	<b>70,172</b>	<b>96,523</b>	<b>101,456</b>	<b>32,837</b>	<b>32,508</b>	<b>60,981</b>	<b>50,505</b>	<b>79,529</b>	<b>55,743</b>
697	707	1,737	1,032	1,414	1,431	1,212	456	1,125	219
335	200	62	479	45	66	102	651	196	129
81,032	69,460	96,035	100,600	32,013	31,091	60,863	49,321	78,945	55,782
12	188	707	1,181	188	59	325	248	-	-
-	-	-	1	-	-	-	-	-	-
<b>82,076</b>	<b>70,555</b>	<b>98,541</b>	<b>103,293</b>	<b>33,660</b>	<b>32,647</b>	<b>62,502</b>	<b>50,676</b>	<b>80,266</b>	<b>56,130</b>
464	376	268	371	129	131	466	138	737	387
544	7	1,750	1,466	694	8	1,055	33	-	-
<b>1,008</b>	<b>383</b>	<b>2,018</b>	<b>1,837</b>	<b>823</b>	<b>139</b>	<b>1,521</b>	<b>171</b>	<b>737</b>	<b>387</b>
<b>81,068</b>	<b>70,172</b>	<b>96,523</b>	<b>101,456</b>	<b>32,837</b>	<b>32,508</b>	<b>60,981</b>	<b>50,505</b>	<b>79,529</b>	<b>55,743</b>

# Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2017

	NOTE	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
		2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
<b>RETAINED EARNINGS</b>											
Opening Retained Earnings/(Deficit)		6,881	5,492	21,660	18,178	12,630	9,366	8,048	14,761	18,776	16,434
Total Comprehensive Income/(Loss)		1,094	1,389	4,428	3,482	4,017	3,264	6,269	(6,713)	1,536	2,342
Closing Retained Earnings/(Deficit)		7,975	6,881	26,088	21,660	16,647	12,630	14,317	8,048	20,312	18,776
<b>UNITS ISSUED</b>											
Opening Units Issued		46,887	34,180	97,404	86,948	94,711	81,261	131,490	123,776	52,276	50,067
Units Issued		52,951	54,023	19,850	24,688	18,449	22,913	13,334	22,189	17,430	10,082
Units Redeemed		(49,218)	(41,316)	(16,355)	(14,232)	(13,186)	(9,463)	(32,469)	(14,475)	(6,838)	(7,873)
Closing Units Issued		50,620	46,887	100,899	97,404	99,974	94,711	112,355	131,490	62,868	52,276
<b>TOTAL UNITHOLDERS' FUNDS</b>	12	<b>58,595</b>	<b>53,768</b>	<b>126,987</b>	<b>119,064</b>	<b>116,621</b>	<b>107,341</b>	<b>126,672</b>	<b>139,538</b>	<b>83,180</b>	<b>71,052</b>
<b>COMPRISES</b>											
Retained Earnings/(Deficit)		7,975	6,881	26,088	21,660	16,647	12,630	14,317	8,048	20,312	18,776
Units Issued		50,620	46,887	100,899	97,404	99,974	94,711	112,355	131,490	62,868	52,276
		<b>58,595</b>	<b>53,768</b>	<b>126,987</b>	<b>119,064</b>	<b>116,621</b>	<b>107,341</b>	<b>126,672</b>	<b>139,538</b>	<b>83,180</b>	<b>71,052</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
(33,231)	(33,887)	29,592	40,042	(22,451)	(15,629)	19,989	25,137	22,112	17,078
(715)	656	5,445	(10,450)	3,964	(6,822)	6,844	(5,148)	8,449	5,034
(33,946)	(33,231)	35,037	29,592	(18,487)	(22,451)	26,833	19,989	30,561	22,112
103,403	100,469	71,864	82,046	54,959	50,113	30,516	36,355	33,631	36,569
18,446	10,773	11,524	13,969	5,175	9,607	10,610	5,721	22,045	5,493
(6,835)	(7,839)	(21,902)	(24,151)	(8,810)	(4,761)	(6,978)	(11,560)	(6,708)	(8,431)
115,014	103,403	61,486	71,864	51,324	54,959	34,148	30,516	48,968	33,631
<b>81,068</b>	<b>70,172</b>	<b>96,523</b>	<b>101,456</b>	<b>32,837</b>	<b>32,508</b>	<b>60,981</b>	<b>50,505</b>	<b>79,529</b>	<b>55,743</b>
(33,946)	(33,231)	35,037	29,592	(18,487)	(22,451)	26,833	19,989	30,561	22,112
115,014	103,403	61,486	71,864	51,324	54,959	34,148	30,516	48,968	33,631
<b>81,068</b>	<b>70,172</b>	<b>96,523</b>	<b>101,456</b>	<b>32,837</b>	<b>32,508</b>	<b>60,981</b>	<b>50,505</b>	<b>79,529</b>	<b>55,743</b>

# Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2017

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>										
Cash was provided from:										
Interest	21	23	12	22	13	13	20	31	17	15
Other Revenue	-	-	-	-	-	-	-	-	-	-
Maturity/Sale of Investments	3,400	5,650	2,000	1,349	32,340	7,452	136,799	56,795	46,765	1,632
Cash was applied to:										
Payments to Suppliers	(127)	(112)	(1,258)	(1,104)	(1,184)	(898)	(2,793)	(2,684)	(1,498)	(1,405)
Purchase of Investments	(7,500)	(17,800)	(5,950)	(8,950)	(36,145)	(19,988)	(121,241)	(56,488)	(52,562)	(3,045)
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>(4,206)</b>	<b>(12,239)</b>	<b>(5,196)</b>	<b>(8,683)</b>	<b>(4,976)</b>	<b>(13,421)</b>	<b>12,785</b>	<b>(2,346)</b>	<b>(7,278)</b>	<b>(2,803)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>										
Cash was provided from:										
Proceeds from Units Issued	52,921	53,806	19,738	24,597	18,202	22,612	12,093	21,214	17,149	9,613
PIE tax rebates received from the IRD on behalf of the unitholders	-	-	110	41	232	268	1,244	824	255	394
Cash was applied to:										
Payments for Units Redeemed	(48,922)	(41,196)	(15,471)	(13,740)	(12,094)	(8,932)	(32,283)	(14,311)	(6,796)	(7,464)
PIE tax paid to the IRD on behalf of the unitholders	(193)	(219)	(973)	(374)	(1,187)	(415)	(215)	(54)	(81)	(363)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>3,806</b>	<b>12,391</b>	<b>3,404</b>	<b>10,524</b>	<b>5,153</b>	<b>13,533</b>	<b>(19,161)</b>	<b>7,673</b>	<b>10,527</b>	<b>2,180</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD</b>	<b>(400)</b>	<b>152</b>	<b>(1,792)</b>	<b>1,841</b>	<b>177</b>	<b>112</b>	<b>(6,376)</b>	<b>5,327</b>	<b>3,249</b>	<b>(623)</b>
Opening Cash and Cash Equivalents Brought Forward	914	762	2,288	447	603	491	6,530	1,203	185	808
<b>CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	<b>514</b>	<b>914</b>	<b>496</b>	<b>2,288</b>	<b>780</b>	<b>603</b>	<b>154</b>	<b>6,530</b>	<b>3,434</b>	<b>185</b>
<b>RECONCILIATION OF NET PROFIT/(LOSS) AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES</b>										
Net Profit/(Loss) After Taxation	1,094	1,389	4,428	3,482	4,017	3,264	6,269	(6,713)	1,536	2,342
Add/(Less) Movements in Working Capital Items:										
Decrease/(Increase) in Receivables	16	(5)	193	(188)	304	(339)	189	(876)	35	53
Decrease/(Increase) in Trading Portfolio Assets	(5,300)	(13,629)	(9,627)	(12,178)	(9,001)	(16,715)	7,092	4,343	(8,818)	(5,153)
Decrease/(Increase) in Derivative Instruments - Assets	-	-	-	-	-	-	-	-	-	-
Decrease/(Increase) in Margin Accounts	-	-	-	-	-	-	-	-	-	-
Increase/(Decrease) in Derivative Instruments - Liabilities	-	-	-	-	-	-	-	-	-	-
Increase/(Decrease) in Payables	(16)	6	(190)	201	(296)	369	(765)	900	(31)	(45)
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>(4,206)</b>	<b>(12,239)</b>	<b>(5,196)</b>	<b>(8,683)</b>	<b>(4,976)</b>	<b>(13,421)</b>	<b>12,785</b>	<b>(2,346)</b>	<b>(7,278)</b>	<b>(2,803)</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
17	17	55	67	10	21	106	45	6	4
-	-	1	1	2	5	-	-	-	-
54,053	21,239	48,516	91,335	27,930	30,003	31,059	36,170	1,500	5,100
(1,384)	(1,342)	(1,633)	(2,326)	(628)	(671)	(377)	(1,214)	(1,442)	(1,444)
(64,261)	(22,776)	(35,923)	(78,993)	(23,729)	(33,259)	(33,656)	(29,213)	(14,442)	(705)
<b>(11,575)</b>	<b>(2,862)</b>	<b>11,016</b>	<b>10,084</b>	<b>3,585</b>	<b>(3,901)</b>	<b>(2,868)</b>	<b>5,788</b>	<b>(14,378)</b>	<b>2,955</b>
17,177	10,081	11,035	12,849	4,994	9,323	10,409	5,408	21,786	5,268
1,261	624	497	1,105	181	279	182	306	203	219
(6,873)	(7,794)	(21,680)	(21,554)	(8,506)	(3,561)	(6,815)	(10,581)	(6,593)	(8,325)
-	-	(163)	(2,594)	(271)	(1,193)	(152)	(976)	(112)	(104)
<b>11,565</b>	<b>2,911</b>	<b>(10,311)</b>	<b>(10,194)</b>	<b>(3,602)</b>	<b>4,848</b>	<b>3,624</b>	<b>(5,843)</b>	<b>15,284</b>	<b>(2,942)</b>
(10)	49	705	(110)	(17)	947	756	(55)	906	13
707	658	1,032	1,142	1,431	484	456	511	219	206
<b>697</b>	<b>707</b>	<b>1,737</b>	<b>1,032</b>	<b>1,414</b>	<b>1,431</b>	<b>1,212</b>	<b>456</b>	<b>1,125</b>	<b>219</b>
(715)	656	5,445	(10,450)	3,964	(6,822)	6,844	(5,148)	8,449	5,034
(92)	(72)	426	255	24	156	572	(352)	(6)	(109)
(11,572)	(3,486)	4,565	17,982	(922)	2,678	(11,542)	11,518	(23,163)	(1,946)
176	9	472	1,871	(129)	278	(77)	574	-	-
-	-	1	516	-	-	-	-	-	-
537	(47)	284	1,437	686	(23)	1,022	21	-	-
91	78	(177)	(1,527)	(38)	(168)	313	(825)	342	(24)
<b>(11,575)</b>	<b>(2,862)</b>	<b>11,016</b>	<b>10,084</b>	<b>3,585</b>	<b>(3,901)</b>	<b>(2,868)</b>	<b>5,788</b>	<b>(14,378)</b>	<b>2,955</b>

# Notes to and forming part of the Financial Statements

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FOR THE YEAR ENDED 31 MARCH 2017

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## 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 and the Dividend and Growth 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 under the NZ Funds Managed Portfolio Service, established within two managed investment schemes called the ‘NZ Funds Managed Portfolio Service Part One’, scheme number SCH10786 and the ‘NZ Funds Managed Portfolio Service Part Two’, scheme number SCH10803 (‘the Schemes’). The securities being offered are units in the Portfolios.

The New Zealand Guardian Trust Company Limited (‘Supervisor’) is the Supervisor of the Portfolios. The Portfolios are either governed by the NZ Funds Managed Portfolio Service Part One Master Trust Deed dated 8 August 1988 (as amended and consolidated on 12 October 2016) or by the NZ Funds Managed Portfolio Service Part Two Master Trust Deed dated 28 February 2008 (as amended and consolidated on 12 October 2016). 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 and the Financial Markets Conduct Act 2013. 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 unitholders 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 Supervisor, NZ Funds, unitholders, service providers and other accruals.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### b) Recognition

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

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

### 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 Supervisor.

### 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 2017.

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

NZ IFRS 9 *Financial Instruments* (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*.

It is anticipated that the impact this standard will have on the Portfolios' financial statements is not material. A review of the actual impact is to be finalised in due course.

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 BUSINESS 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	26/08/2000
Property Inflation Portfolio	9/10/2008	31/10/2008
Equity Inflation Portfolio	13/05/1999	26/08/2000
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

#### 5. AMENDMENT TO THE TRUST DEEDS

Other than specified below, there have been no amendments to the Trust Deeds for the year ended 31 March 2017.

The Strategic Investment Fund Trust Deed, originally dated 8 August 1988 (as amended and consolidated), was amended on 12 October 2016. The amendments to the Trust Deed comprise:

- (i) Renaming the deed the 'Master Unit Trust Deed constituting the NZ Funds Managed Portfolio Service Part One';
- (ii) Substantially adopting the provisions of the NZ Funds Managed Portfolio Service Part Two Trust Deed; and
- (iii) Incorporating provisions required for a managed investment scheme as set out in the Financial Markets Conduct Act 2013 and Financial Markets Conduct Regulations 2014.

The NZ Funds Managed Portfolio Service Trust Deed, originally dated 28 February 2008 (as amended and consolidated), was amended on 12 October 2016. The amendments to the Trust Deed comprise:

- (i) Renaming the deed the 'Master Unit Trust Deed constituting the NZ Funds Managed Portfolio Service Part Two';
- (ii) Incorporating provisions required for a managed investment scheme as set out in the Financial Markets Conduct Act 2013 and Financial Markets Conduct Regulations 2014.

#### 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 2017

## 7. RECEIVABLES

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Performance fee refundable from the Supervisor	-	-	-	-	-	-	-	-	-	-
PIE tax payable to the IRD recoverable from unitholders	42	58	206	399	172	476	-	-	-	-
PIE tax rebates receivable from the IRD on behalf of unitholders	-	-	-	-	-	-	234	923	22	57
Receivable from other unit trusts - related parties	79	61	26	10	28	4	517	4	33	2
Others	-	-	-	-	-	-	-	-	-	-
<b>TOTAL RECEIVABLES</b>	<b>121</b>	<b>119</b>	<b>232</b>	<b>409</b>	<b>200</b>	<b>480</b>	<b>751</b>	<b>927</b>	<b>55</b>	<b>59</b>

## 8. TRADING PORTFOLIO ASSETS

The Portfolios invest substantially all of their assets, each in different proportions (refer to Note 1.8 *Related party*) into the trusts, established under the Global Investment Service Trust Deed, for which Global Investment Services Limited is the trustee ('GISL Trusts') and/or trusts established under 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'). Together, the GISL Trusts and the NZFS Trusts are referred to as 'the Wholesale Trusts'.

INVESTMENTS IN TRADING PORTFOLIO ASSETS	2017 \$000	2016 \$000
Core Cash Portfolio	58,234	52,934
Core Income Portfolio	126,648	117,021
Global Income Portfolio	115,968	106,967
Core Inflation Portfolio	126,309	133,401
Property Inflation Portfolio	79,868	71,050
Equity Inflation Portfolio	81,032	69,460
Core Growth Portfolio	96,035	100,600
Global Multi-Asset Growth Portfolio	32,013	31,091
Global Equity Growth Portfolio	60,863	49,321
Dividend and Growth Portfolio	78,945	55,782

## 9. DERIVATIVE INSTRUMENTS

### Overview

A derivative is a financial instrument, the value of which is derived from changes in the value of another asset (for example, a share market index, a commodity, a bond, or a currency). Examples of derivatives include futures, options, forwards and swaps.

Some examples of how derivatives may be used in a Portfolio include:

- (i) To gain exposure to an asset and/or asset class;
- (ii) To modify exposure to an asset and/or asset class; and
- (iii) To hedge or seek to mitigate exposure to an asset and/or asset class.

The use of derivatives can result in a Portfolio being leveraged which means small changes in the value of the underlying asset of a derivative may result in substantial gains or losses for the Portfolio.

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
-	-	-	315	-	-	-	605	-	-
-	-	-	-	41	65	78	-	-	-
290	198	52	163	-	-	-	45	134	128
45	2	8	1	4	1	24	1	62	1
-	-	2	-	-	-	-	-	-	-
<b>335</b>	<b>200</b>	<b>62</b>	<b>479</b>	<b>45</b>	<b>66</b>	<b>102</b>	<b>651</b>	<b>196</b>	<b>129</b>

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.

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>2017</b>												
<i>Directly held derivatives</i>												
Foreign exchange forwards	21,133	12	(544)	122,382	707	(1,750)	32,085	188	(694)	59,257	325	(1,055)
	<b>21,133</b>	<b>12</b>	<b>(544)</b>	<b>122,382</b>	<b>707</b>	<b>(1,750)</b>	<b>32,085</b>	<b>188</b>	<b>(694)</b>	<b>59,257</b>	<b>325</b>	<b>(1,055)</b>
<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>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 9. DERIVATIVE INSTRUMENTS (CONTINUED)

### 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 2017, 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.

### 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 2017.

DERIVATIVE INSTRUMENTS	EQUITY INFLATION PORTFOLIO					CORE GROWTH PORTFOLIO						
	GROSS DERIVATIVE ASSETS	GROSS DERIVATIVE LIABILITIES	ADJUSTMENTS	NET DERIVATIVE ASSETS	NET DERIVATIVE LIABILITIES	CASH COLLATERAL PLEDGED NOT SET-OFF	GROSS DERIVATIVE ASSETS	GROSS DERIVATIVE LIABILITIES	ADJUSTMENTS	NET DERIVATIVE ASSETS	NET DERIVATIVE LIABILITIES	CASH COLLATERAL PLEDGED NOT SET-OFF
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>2017</b>												
<i>Directly held derivatives</i>												
Foreign exchange forwards	12	(544)	-	12	(544)	-	3,285	(4,328)	(2,578)	707	(1,750)	-
	<b>12</b>	<b>(544)</b>	<b>-</b>	<b>12</b>	<b>(544)</b>	<b>-</b>	<b>3,285</b>	<b>(4,328)</b>	<b>(2,578)</b>	<b>707</b>	<b>(1,750)</b>	<b>-</b>
<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>

9. DERIVATIVE INSTRUMENTS (CONTINUED)

GLOBAL MULTI-ASSET GROWTH PORTFOLIO						GLOBAL EQUITY GROWTH PORTFOLIO					
GROSS DERIVATIVE ASSETS	GROSS DERIVATIVE LIABILITIES	ADJUSTMENTS	NET DERIVATIVE ASSETS	NET DERIVATIVE LIABILITIES	CASH COLLATERAL PLEGGED NOT SET-OFF	GROSS DERIVATIVE ASSETS	GROSS DERIVATIVE LIABILITIES	ADJUSTMENTS	NET DERIVATIVE ASSETS	NET DERIVATIVE LIABILITIES	CASH COLLATERAL PLEGGED NOT SET-OFF
€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
874	(1,380)	(686)	188	(694)	-	1,486	(2,216)	(1,161)	325	(1,055)	-
<b>874</b>	<b>(1,380)</b>	<b>(686)</b>	<b>188</b>	<b>(694)</b>	<b>-</b>	<b>1,486</b>	<b>(2,216)</b>	<b>(1,161)</b>	<b>325</b>	<b>(1,055)</b>	<b>-</b>
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>-</b>	<b>473</b>	<b>(258)</b>	<b>(225)</b>	<b>248</b>	<b>(33)</b>	<b>-</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 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 Wholesale Trusts, NZ Funds uses an active investment management approach. The active investment management approach is designed to better meet the unitholder-orientated objectives of each Portfolio and to take advantage of investment opportunities as they arise.

#### *Dynamic asset allocation*

As part of NZ Funds' active investment management approach each Portfolio's asset allocation is dynamic (able to change over time) rather than strategic (a fixed allocation over time). NZ Funds selects each Portfolio's asset allocation at any time, based on its investment knowledge and/or research, with reference to each Portfolio's investment objective and risk profile. Securities, currencies, commodities, derivatives and/or specialist investment managers can be used to achieve a desired Portfolio asset allocation.

#### *Wide investment mandates*

In managing each Portfolio, NZ Funds takes a wide variety of actions and are not constrained by a benchmark (or target) asset allocation or range. The actions taken include, but are not limited to:

- (i) altering the proportion invested in each security or asset class;
- (ii) altering the manner in which a Portfolio is exposed to each security or asset class;
- (iii) investing directly or indirectly;
- (iv) using derivatives and/or any resulting leverage;
- (v) using collective investment vehicles;
- (vi) using specialist investment managers;
- (vii) applying hedging; or
- (viii) taking short positions.

#### *Use of specialist investment managers*

External specialist investment managers may be appointed where NZ Funds considers that the manager's investment approach will help meet the objectives of the Portfolios. These specialist investment managers will complement NZ Funds' own investment skills and can provide unitholders with a diversity of approaches.

The selection of specialist investment managers is subject to due diligence and an approval process. In addition, all specialist investment managers are regularly monitored and reviewed. This review process includes consideration of the manager's performance, portfolio composition, and statistical measures of effectiveness. The specialist investment managers used are expected to change over time as part of NZ Funds' active investment management approach.

#### *Risks of an active investment management approach*

The way in which NZ Funds' active investment management approach is implemented may change over time as, by way of example, the nature of the investment opportunities it may be seeking to gain exposure to changes. This may result in the Portfolios being constructed with different combinations of investments, underlying specialist investment managers and investment strategies. In order to allow these changes to occur, each Portfolio has a wide investment mandate.

NZ Funds' active investment management approach and wide investment mandates means the Portfolios are subject to different risks (which may be considered higher risks) than a non-active investment management approach. As a result, NZ Funds' 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 asset classes utilised.

#### *Collaborative process*

NZ Funds takes a collaborative approach to investment management and believes investment performance is a collectively achieved outcome. Each Portfolio is assigned a portfolio manager who is responsible for overseeing the daily management of the Portfolio. Investment decisions, with some exceptions, are primarily made through a series of internal investment meetings attended by the NZ Funds Investment Team.

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

These meetings enable portfolio managers and investment analysts to present investment research and thinking in a way that encourages wide participation in, and peer review of, investment decisions. The outcome of investment decisions is subject to peer review. Unitholder transparency of investment decisions is provided through NZ Funds' transparent monitoring and reporting structure.

### *Investment tools and techniques*

In managing investments NZ Funds uses a wide range of investment tools and techniques including, for example, economic and financial modelling, quantitative screens and technical indicators. In using these tools and techniques, NZ Funds may consider, amongst other factors, investment themes, valuation metrics, mean reversion and/or momentum.

In seeking to mitigate the downside NZ Funds invests with managers which have the potential to profit from asset price declines, such as trend following managers; managers who specialise in being short shares; and derivative and option specialists. NZ Funds may also actively reduce a Portfolio's exposure to an asset class, or macro hedge a Portfolio's exposure by investing, additional funds in an offsetting asset class. While designed to mitigate the downside, these downside-orientated managers, tools and techniques may not be successful in mitigating the downside and in some circumstances may instead add to a Portfolio's losses.

### *Portfolio construction*

As part of NZ Funds' active investment management approach, asset classes, assets and specialist investment managers, are selected based on NZ Funds' analysis of those assets which will, in its opinion, in combination with the other assets in the Portfolio, help to achieve the objectives of the Portfolio.

In constructing the Portfolios, NZ Funds considers different scenarios and projects how investments may react in those scenarios. NZ Funds may also consider historical volatility and correlations during both normal and stressed investment environments. NZ Funds may revisit the assumptions used periodically as economic and market conditions change.

## **b) Risk mitigation structure**

NZ Funds has policies, procedures and controls to cover the investment function.

Portfolio management decisions are subject to daily transparency through NZ Funds' proprietary investment monitoring system. Regular meetings are held to cover:

- (i) investment research and portfolio management;
- (ii) investment guidelines and the Statement of Investment Policy and Objectives ('SIPO') compliance; and
- (iii) overall investment governance.

NZ Funds' investment strategy review and monitoring process commences with the Research & Management Meeting which monitors security research and portfolio management. The minutes of these meetings are tabled at the Investment Committee meeting.

The Investment Guidelines Meeting monitors compliance with the internal investment guidelines and SIPO. The minutes of these meetings are also tabled at the Investment Committee meeting.

Overall responsibility for investment strategy review and monitoring rests with the Investment Committee under delegated authority from the NZ Funds Board. The Investment Committee meets approximately six weekly to review investment matters, which include (but are not limited to) the investment component of NZ Funds' risk register, investment counterparty risk, liquidity risk, redemption risk, stress testing, and the minutes of internal investment related meetings. The Investment Committee minutes are included as a standing item at the NZ Funds Board meeting.

The NZ Funds Board meets approximately six weekly. In addition to the Investment Committee minutes and associated reports, the NZ Funds Board reviews NZ Funds' risk register which summarises the major risks and mitigation strategies (including those related to investment management) at each meeting and at special meetings convened for that purpose.

### *Investment guidelines*

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

As part of NZ Funds' active investment management approach, the guidelines may require amendment from time to time. Guidelines, and any changes to them, must be approved by the NZ Funds Board and are overseen by the NZ Funds Investment Committee. The Guidelines can only be amended after prior notice to the Supervisor.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

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

### *Investment performance*

The Investment Committee is responsible for monitoring and reviewing investment performance and reports to the NZ Funds Board. Portfolio performance is monitored through NZ Funds' proprietary investment monitoring system. The system generates a daily attribution report which includes daily, rolling monthly and yearly performance reports for each Portfolio and individual investments held by the Portfolios and the Wholesale Trusts.

Monthly investment performance reports are prepared and are reviewed by the Investment Committee. Long-term performance is also monitored on a rolling 2 year, 5 year, 7 year, 10 year and since inception basis.

Performance is measured on an absolute basis (after fees and expenses), against term deposits as well as relative to each Portfolio's market index and to unitholder objectives.

### **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 Wholesale Trusts are treated as equity instruments, therefore the Portfolios are exposed to equity price risk. However, the underlying financial instruments of the Wholesale 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 Wholesale 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 Wholesale Trusts is set out in Note 18 *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 Wholesale 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 0.1% change in interest rates (2016: 0.5%). 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).



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

<b>DIRECT EXPOSURE OF FINANCIAL INSTRUMENTS TO INTEREST RATE RISK</b>	<b>2017 \$000</b>	<b>2016 \$000</b>
Core Cash Portfolio	514	914
Core Income Portfolio	496	2,288
Global Income Portfolio	780	603
Core Inflation Portfolio	154	6,530
Property Inflation Portfolio	3,434	185
Equity Inflation Portfolio	697	707
Core Growth Portfolio	1,737	1,032
Global Multi-Asset Growth Portfolio	1,414	1,431
Global Equity Growth Portfolio	1,212	456
Dividend and Growth Portfolio	1,125	219

<b>INCREASE/(DECREASE) IN COMPREHENSIVE INCOME AND UNITHOLDERS' FUNDS BASED ON THE ESTIMATED INTEREST INCOME MOVEMENT</b>	<b>\$ IMPACT GIVEN 0.1% INCREASE IN RATES</b>	<b>\$ IMPACT GIVEN 0.1% DECREASE IN RATES</b>	<b>\$ IMPACT GIVEN 0.5% INCREASE IN RATES</b>	<b>\$ IMPACT GIVEN 0.5% DECREASE IN RATES</b>
	<b>2017 \$000</b>	<b>2017 \$000</b>	<b>2016 \$000</b>	<b>2016 \$000</b>
Core Cash Portfolio	1	(1)	5	(5)
Core Income Portfolio	-	-	11	(11)
Global Income Portfolio	1	(1)	3	(3)
Core Inflation Portfolio	-	-	33	(33)
Property Inflation Portfolio	3	(3)	1	(1)
Equity Inflation Portfolio	1	(1)	4	(4)
Core Growth Portfolio	2	(2)	5	(5)
Global Multi-Asset Growth Portfolio	1	(1)	7	(7)
Global Equity Growth Portfolio	1	(1)	2	(2)
Dividend and Growth Portfolio	1	(1)	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.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 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 Wholesale 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 11.0% (2016: 11.9%) 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	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
<b>DIRECT CURRENCY EXPOSURE (IN NZD EQUIVALENT)</b>										
Australian Dollars	-	-	-	-	-	-	-	-	-	-
British Pound	-	-	-	-	-	-	-	-	-	-
Chinese Yuan	-	-	-	-	-	-	-	-	-	-
Euro	-	-	-	-	-	-	-	-	-	-
Japanese Yen	-	-	-	-	-	-	-	-	-	-
U.S. Dollars	-	-	-	-	-	-	-	-	-	-
Singapore Dollars	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
<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 a 11.0% (2016: 11.9%) increase in exchange rates	-	-	-	-	-	-	-	-	-	-
\$ impact on Comprehensive Income and Unitholders' Funds given a 11.0% (2016: 11.9%) decrease in exchange rates	-	-	-	-	-	-	-	-	-	-
<b>GROSS CURRENCY EXPOSURE - ABSOLUTE TOTAL OF LONG AND (SHORT) CURRENCIES</b>	-	-	-	-	-	-	-	-	-	-
\$ impact on Comprehensive Income and Unitholders' Funds given a 11.0% (2016: 11.9%) increase in exchange rates	-	-	-	-	-	-	-	-	-	-
\$ impact on Comprehensive Income and Unitholders' Funds given a 11.0% (2016: 11.9%) 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.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
498	-	35,128	1,123	11,244	-	19,934	-	-	-
-	941	(174)	(1,659)	-	-	(544)	(633)	-	-
-	-	(5,362)	(10,591)	(1,254)	-	(2,021)	-	-	-
-	-	(17,340)	(5,750)	(3,364)	137	(8,608)	(955)	-	-
-	-	(14,309)	(1,570)	(3,495)	(86)	(7,238)	(943)	-	-
(20,635)	(5,954)	29,524	16,299	(7,230)	(6,667)	(12,404)	(2,838)	-	-
-	-	(5,144)	-	(1,377)	-	(2,131)	-	-	-
-	-	(15,401)	-	(4,121)	-	(6,377)	-	-	-
<b>(20,137)</b>	<b>(5,013)</b>	<b>6,922</b>	<b>(2,148)</b>	<b>(9,597)</b>	<b>(6,616)</b>	<b>(19,389)</b>	<b>(5,369)</b>	-	-
-	-	-	-	-	-	-	-	-	-
<b>(20,137)</b>	<b>(5,013)</b>	<b>6,922</b>	<b>(2,148)</b>	<b>(9,597)</b>	<b>(6,616)</b>	<b>(19,389)</b>	<b>(5,369)</b>	-	-
(2,215)	(597)	761	(256)	(1,056)	(787)	(2,133)	(639)	-	-
2,215	597	(761)	256	1,056	787	2,133	639	-	-
<b>21,133</b>	<b>6,895</b>	<b>122,382</b>	<b>36,992</b>	<b>32,085</b>	<b>6,890</b>	<b>59,257</b>	<b>5,369</b>	-	-
2,325	821	13,462	4,402	3,529	820	6,518	639	-	-
(2,325)	(821)	(13,462)	(4,402)	(3,529)	(820)	(6,518)	(639)	-	-

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 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 Wholesale Trusts are treated as equity instruments, therefore the Portfolios are exposed to equity price risk. However, the underlying financial instruments of the Wholesale 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 Wholesale 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 Wholesale Trusts are set out in Note 18 *Related party*. The Wholesale 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>2017 \$000</b>	<b>2016 \$000</b>
Core Cash Portfolio	58,234	52,934
Core Income Portfolio	126,648	117,021
Global Income Portfolio	115,968	106,967
Core Inflation Portfolio	126,309	133,401
Property Inflation Portfolio	79,868	71,050
Equity Inflation Portfolio	81,032	69,460
Core Growth Portfolio	96,035	100,600
Global Multi-Asset Growth Portfolio	32,013	31,091
Global Equity Growth Portfolio	60,863	49,321
Dividend and Growth Portfolio	78,945	55,782

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

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
	2017 %	2017 \$000	2017 \$000	2016 %	2016 \$000	2016 \$000
Core Cash Portfolio	0.1	58	(58)	0.5	265	(265)
Core Income Portfolio	1.8	2,280	(2,280)	4.2	4,915	(4,915)
Global Income Portfolio	1.9	2,203	(2,203)	3.8	4,065	(4,065)
Core Inflation Portfolio	7.1	8,968	(8,968)	8.2	10,939	(10,939)
Property Inflation Portfolio	6.1	4,872	(4,872)	8.8	6,252	(6,252)
Equity Inflation Portfolio	6.2	5,024	(5,024)	8.7	6,043	(6,043)
Core Growth Portfolio	12.9	12,389	(12,389)	11.3	11,368	(11,368)
Global Multi-Asset Growth Portfolio	13.6	4,354	(4,354)	13.0	4,042	(4,042)
Global Equity Growth Portfolio	10.5	6,391	(6,391)	11.0	5,425	(5,425)
Dividend and Growth Portfolio	9.6	7,579	(7,579)	11.4	6,359	(6,359)

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 2017

## 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 Wholesale Trusts set out in Note 18 *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	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
<b>DIRECT CREDIT RISK</b>										
<i>Breakdown of credit exposure</i>										
Cash and cash equivalents	514	914	496	2,288	780	603	154	6,530	3,434	185
Receivables	121	119	232	409	200	480	751	927	55	59
Derivative instruments	-	-	-	-	-	-	-	-	-	-
Margin accounts	-	-	-	-	-	-	-	-	-	-
<b>TOTAL CREDIT EXPOSURE NET OF PROVISION FOR IMPAIRMENT</b>	<b>635</b>	<b>1,033</b>	<b>728</b>	<b>2,697</b>	<b>980</b>	<b>1,083</b>	<b>905</b>	<b>7,457</b>	<b>3,489</b>	<b>244</b>

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
697	707	1,737	1,032	1,414	1,431	1,212	456	1,125	219
335	200	62	479	45	66	102	651	196	129
12	188	707	1,181	188	59	325	248	-	-
-	-	-	1	-	-	-	-	-	-
<b>1,044</b>	<b>1,095</b>	<b>2,506</b>	<b>2,693</b>	<b>1,647</b>	<b>1,556</b>	<b>1,639</b>	<b>1,355</b>	<b>1,321</b>	<b>348</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 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*, unitholders 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 Wholesale Trusts are set out in Note 18 *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	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
<b>FINANCIAL ASSETS</b>										
<i>On demand/within 30 days</i>										
Cash and cash equivalents	514	914	496	2,288	780	603	154	6,530	3,434	185
Receivables	121	119	232	409	200	480	751	927	55	59
Trading portfolio assets	58,234	52,934	126,648	117,021	115,968	106,967	126,309	133,401	79,868	71,050
<i>Due within 12 months</i>										
Receivables	-	-	-	-	-	-	-	-	-	-
Derivative instruments	-	-	-	-	-	-	-	-	-	-
Margin accounts	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>58,869</b>	<b>53,967</b>	<b>127,376</b>	<b>119,718</b>	<b>116,948</b>	<b>108,050</b>	<b>127,214</b>	<b>140,858</b>	<b>83,357</b>	<b>71,294</b>
<b>FINANCIAL LIABILITIES</b>										
<i>On demand/within 30 days</i>										
Payables	274	199	389	654	327	709	542	1,320	177	242
<i>Due within 12 months</i>										
Payables	-	-	-	-	-	-	-	-	-	-
Derivative instruments	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>274</b>	<b>199</b>	<b>389</b>	<b>654</b>	<b>327</b>	<b>709</b>	<b>542</b>	<b>1,320</b>	<b>177</b>	<b>242</b>



10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
697	707	1,737	1,032	1,414	1,431	1,212	456	1,125	219
335	200	62	164	45	66	102	46	196	129
81,032	69,460	96,035	100,600	32,013	31,091	60,863	49,321	78,945	55,782
-	-	-	315	-	-	-	605	-	-
12	188	707	1,181	188	59	325	248	-	-
-	-	-	1	-	-	-	-	-	-
<b>82,076</b>	<b>70,555</b>	<b>98,541</b>	<b>103,293</b>	<b>33,660</b>	<b>32,647</b>	<b>62,502</b>	<b>50,676</b>	<b>80,266</b>	<b>56,130</b>
464	376	268	371	129	131	179	138	298	248
-	-	-	-	-	-	287	-	439	139
544	7	1,750	1,466	694	8	1,055	33	-	-
<b>1,008</b>	<b>383</b>	<b>2,018</b>	<b>1,837</b>	<b>823</b>	<b>139</b>	<b>1,521</b>	<b>171</b>	<b>737</b>	<b>387</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 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.

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$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	58,234	52,934	126,648	117,021	115,968	106,967	126,309	133,401	79,868	71,050
(ii) Derivative instruments										
Foreign exchange forwards	-	-	-	-	-	-	-	-	-	-
<i>Financial liabilities designated at fair value through profit or loss:</i>										
(i) Derivative instruments										
Foreign exchange forwards	-	-	-	-	-	-	-	-	-	-

11. USE OF ESTIMATES AND VALUATION OF FINANCIAL INSTRUMENTS (CONTINUED)

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
81,032	69,460	96,035	100,600	32,013	31,091	60,863	49,321	78,945	55,782
12	188	707	1,181	188	59	325	248	-	-
(544)	(7)	(1,750)	(1,466)	(694)	(8)	(1,055)	(33)	-	-

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 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 unitholders in the Core Cash Portfolio are usually paid within four business days of receipt of notice.

unitholders 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.

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	
	2017 000	2016 000	2017 000	2016 000	2017 000	2016 000	2017 000	2016 000	2017 000	2016 000
<b>UNITS ON ISSUE</b>										
Units on issue at the beginning of the year	41,356	31,436	85,837	78,144	78,455	68,274	109,749	103,794	47,377	45,845
Units issued	40,301	42,137	13,965	18,185	13,118	17,316	10,349	17,184	11,697	6,961
Units redeemed	(37,459)	(32,217)	(11,531)	(10,492)	(9,404)	(7,135)	(25,171)	(11,229)	(4,539)	(5,429)
<b>UNITS ON ISSUE AT THE END OF THE YEAR</b>	<b>44,198</b>	<b>41,356</b>	<b>88,271</b>	<b>85,837</b>	<b>82,169</b>	<b>78,455</b>	<b>94,927</b>	<b>109,749</b>	<b>54,535</b>	<b>47,377</b>
Represented by										
<b>TOTAL UNITHOLDERS' FUNDS (\$000)</b>	<b>58,595</b>	<b>53,768</b>	<b>126,987</b>	<b>119,064</b>	<b>116,621</b>	<b>107,341</b>	<b>126,672</b>	<b>139,538</b>	<b>83,180</b>	<b>71,052</b>
<b>NET ASSET VALUE PER UNIT(\$)</b>	<b>1.33</b>	<b>1.30</b>	<b>1.44</b>	<b>1.39</b>	<b>1.42</b>	<b>1.37</b>	<b>1.33</b>	<b>1.27</b>	<b>1.53</b>	<b>1.50</b>

None of the Portfolios made distributions during the year (2016: nil).

## 13. NET TRADING GAINS/(LOSSES)

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Trading portfolio assets	1,200	1,479	5,677	4,577	5,196	4,179	7,238	(5,047)	3,021	3,740
Derivative instruments	-	-	-	-	-	-	-	-	-	-
<b>TOTAL NET TRADING GAINS/(LOSSES)</b>	<b>1,200</b>	<b>1,479</b>	<b>5,677</b>	<b>4,577</b>	<b>5,196</b>	<b>4,179</b>	<b>7,238</b>	<b>(5,047)</b>	<b>3,021</b>	<b>3,740</b>

12. UNITS ON ISSUE (CONTINUED)

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 000	2016 000	2017 000	2016 000	2017 000	2016 000	2017 000	2016 000	2017 000	2016 000
80,756	77,341	76,489	83,503	58,414	50,618	38,068	42,155	36,145	38,247
21,164	12,578	8,597	9,661	8,505	15,594	7,702	4,021	13,561	3,873
(7,804)	(9,163)	(16,272)	(16,675)	(13,995)	(7,798)	(5,071)	(8,108)	(4,135)	(5,975)
<b>94,116</b>	<b>80,756</b>	<b>68,814</b>	<b>76,489</b>	<b>52,924</b>	<b>58,414</b>	<b>40,699</b>	<b>38,068</b>	<b>45,571</b>	<b>36,145</b>
<b>81,068</b>	<b>70,172</b>	<b>96,523</b>	<b>101,456</b>	<b>32,837</b>	<b>32,508</b>	<b>60,981</b>	<b>50,505</b>	<b>79,529</b>	<b>55,743</b>
<b>0.86</b>	<b>0.87</b>	<b>1.40</b>	<b>1.33</b>	<b>0.62</b>	<b>0.56</b>	<b>1.50</b>	<b>1.33</b>	<b>1.75</b>	<b>1.54</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
(1,455)	511	5,366	(17,941)	3,908	(7,002)	7,094	(11,522)	10,221	6,341
198	546	1,850	1,271	650	804	849	927	-	-
<b>(1,257)</b>	<b>1,057</b>	<b>7,216</b>	<b>(16,670)</b>	<b>4,558</b>	<b>(6,198)</b>	<b>7,943</b>	<b>(10,595)</b>	<b>10,221</b>	<b>6,341</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 14. AUDIT AND PROFESSIONAL FEES

	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
<i>Fees to auditors:</i>										
Audit fees	6	8	15	16	14	15	15	16	9	10
Other professional fees	-	1	1	2	1	1	1	2	-	1
<b>TOTAL AUDIT AND PROFESSIONAL FEES</b>	<b>6</b>	<b>9</b>	<b>16</b>	<b>18</b>	<b>15</b>	<b>16</b>	<b>16</b>	<b>18</b>	<b>9</b>	<b>11</b>

Other professional fees consist principally of legal fees.

## 15. FEES AND REIMBURSABLE EXPENSES

	NOTE	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
		2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Management fees, performance fees and reimbursable expenses	18	102	88	1,204	1,061	1,139	878	2,656	2,643	1,468	1,378
Supervisor fees		19	16	40	37	37	33	44	46	24	23
<b>TOTAL FEES AND REIMBURSABLE EXPENSES</b>		<b>121</b>	<b>104</b>	<b>1,244</b>	<b>1,098</b>	<b>1,176</b>	<b>911</b>	<b>2,700</b>	<b>2,689</b>	<b>1,492</b>	<b>1,401</b>

## 16. PAYABLES

	NOTE	CORE CASH PORTFOLIO		CORE INCOME PORTFOLIO		GLOBAL INCOME PORTFOLIO		CORE INFLATION PORTFOLIO		PROPERTY INFLATION PORTFOLIO	
		2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Accruals		7	7	15	16	14	14	15	16	9	10
Management fees, performance fees and reimbursable expenses payables	18	11	11	112	109	105	97	189	264	132	127
PIE tax payable to the IRD on behalf of unitholders		42	58	206	399	172	476	-	-	-	-
PIE tax rebates payable to unitholders		-	-	-	-	-	-	234	923	22	57
Redemptions, unapplied money and other payables		212	121	52	127	33	119	100	113	12	46
Supervisor fees payable		2	2	4	3	3	3	4	4	2	2
<b>TOTAL PAYABLES</b>		<b>274</b>	<b>199</b>	<b>389</b>	<b>654</b>	<b>327</b>	<b>709</b>	<b>542</b>	<b>1,320</b>	<b>177</b>	<b>242</b>

#### 14. AUDIT AND PROFESSIONAL FEES (CONTINUED)

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
9	10	13	16	5	7	7	9	8	8
1	1	1	2	-	-	-	1	-	1
<b>10</b>	<b>11</b>	<b>14</b>	<b>18</b>	<b>5</b>	<b>7</b>	<b>7</b>	<b>10</b>	<b>8</b>	<b>9</b>

#### 15. FEES AND REIMBURSABLE EXPENSES (CONTINUED)

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
1,348	1,313	1,834	997	597	641	1,237	7	1,749	1,285
24	23	33	38	12	11	18	19	21	17
<b>1,372</b>	<b>1,336</b>	<b>1,867</b>	<b>1,035</b>	<b>609</b>	<b>652</b>	<b>1,255</b>	<b>26</b>	<b>1,770</b>	<b>1,302</b>

#### 16. PAYABLES (CONTINUED)

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
9	10	12	15	4	5	6	8	8	7
120	121	119	182	40	53	362	81	582	247
-	-	-	-	41	65	78	-	-	-
290	198	52	163	-	-	-	45	134	128
42	45	82	8	43	7	18	3	11	3
3	2	3	3	1	1	2	1	2	2
<b>464</b>	<b>376</b>	<b>268</b>	<b>371</b>	<b>129</b>	<b>131</b>	<b>466</b>	<b>138</b>	<b>737</b>	<b>387</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 17. TAXATION

### Portfolio investment entity regime

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

### 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 16 *Payables* for details.

### Formation losses

The Equity Inflation Portfolio had formation losses available during the year. Formation losses were firstly used to offset any taxable income derived daily from the Equity Inflation Portfolio. Any remaining income was then attributed to unitholders. Unused formation losses were 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	LOSSES	CLOSING	OPENING	LOSSES	CLOSING
	BALANCE	USED	BALANCE	BALANCE	USED	BALANCE
	01/04/16		31/03/17	01/04/15		31/03/16
	€000	€000	€000	€000	€000	€000
Equity Inflation Portfolio	10,159	(10,159)	-	15,409	(5,250)	10,159



## 18. RELATED PARTY

### 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.

### Underlying investment portfolios and their trustees

The Portfolios may invest into the Wholesale Trusts, which comprise 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 are investment entities as defined by NZ IFRS 10 *Consolidated Financial Statements* and, as such, do not consolidate any of the Wholesale Trusts they invest in. Instead, investments in the Wholesale Trusts are classified at fair value through profit or loss and measured at fair value.

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:

TABLE 1	PURCHASES		(REDEMPTIONS)		BALANCE OF INVESTMENTS	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Core Cash Portfolio	-	-	-	-	-	-
Core Income Portfolio	-	-	-	-	-	-
Global Income Portfolio	-	-	-	-	-	-
Core Inflation Portfolio	8,068	6,864	(37,389)	(6,034)	-	29,943
Property Inflation Portfolio	-	-	-	-	-	-
Equity Inflation Portfolio	25,496	11,666	(21,272)	(870)	34,426	30,176
Core Growth Portfolio	177	21,075	(20,438)	(26,886)	12,569	29,228
Global Multi-Asset Growth Portfolio	11,806	8,068	(8,721)	-	8,774	3,327
Global Equity Growth Portfolio	24,409	22,402	(11,728)	(14,557)	52,886	32,227
Dividend and Growth Portfolio	-	-	-	-	-	-

The following Portfolios have/had more than a 50% ownership of certain GISL Trusts, as at 31 March 2017 and/or 31 March 2016. GISL Trusts are resident in Australia and have a principal place of business in New Zealand. These Portfolios' investments in the GISL Trusts as a percentage are detailed in Table 1A below:

TABLE 1A	INVESTMENT	PERCENTAGE OWNERSHIP	
		2017 %	2016 %
Equity Inflation Portfolio	Australian Investment Trust 4	77.4	42.1
Core Growth Portfolio	Derivative Investment Trust 7	100.0	100.0
Global Multi-Asset Growth Portfolio	Derivative Investment Trust 5	100.0	100.0
Global Equity Growth Portfolio	Australian Investment Trust 1	49.9	50.0
	Australian Investment Trust 2	-	80.9
	Australian Investment Trust 3	73.6	27.1
	Derivative Investment Trust 9	100.0	100.0

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 18. RELATED PARTY (CONTINUED)

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:

TABLE 2	PURCHASES		(REDEMPTIONS)		BALANCE OF INVESTMENTS	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Core Cash Portfolio	7,500	17,800	(3,400)	(5,650)	58,234	52,934
Core Income Portfolio	5,950	8,950	(2,000)	(1,349)	126,648	117,021
Global Income Portfolio	36,145	19,988	(32,339)	(7,450)	115,968	106,967
Core Inflation Portfolio	114,902	50,635	(99,911)	(50,760)	126,309	103,458
Property Inflation Portfolio	52,562	3,045	(46,764)	(1,631)	79,868	71,050
Equity Inflation Portfolio	42,274	12,040	(31,868)	(21,210)	46,606	39,284
Core Growth Portfolio	35,800	65,640	(25,477)	(59,866)	83,466	71,372
Global Multi-Asset Growth Portfolio	11,931	25,200	(18,003)	(28,945)	23,239	27,764
Global Equity Growth Portfolio	9,304	12,250	(17,535)	(20,091)	7,977	17,094
Dividend and Growth Portfolio	14,442	705	(1,500)	(5,100)	78,945	55,782

The following Portfolios have/had more than a 50% ownership of certain NZFS Trusts, as at 31 March 2017 and/or 31 March 2016. NZFS Trusts are resident in New Zealand and have a principal place of business in New Zealand. These Portfolios' investments in the NZFS Trusts as a percentage are detailed in Table 2A below:

TABLE 2A	INVESTMENT	PERCENTAGE OWNERSHIP	
		2017 %	2016 %
Core Cash Portfolio	Private Money Market	95.1	98.1
Core Income Portfolio	Private Core Income Portfolio	100.0	100.0
Global Income Portfolio	New Zealand Investment Trust 4	-	88.7
	Private Global Investment Trust	86.8	87.6
Core Inflation Portfolio	New Zealand Investment Trust 2	67.6	74.3
	New Zealand Investment Trust 9	-	54.2
Property Inflation Portfolio	New Zealand Investment Trust 5	100.0	100.0
	New Zealand Investment Trust 8	100.0	-
Equity Inflation Portfolio	New Zealand Investment Trust 6	86.0	100.0
	New Zealand Investment Trust 12	24.8	100.0
Core Growth Portfolio	New Zealand Investment Trust 3	100.0	100.0
	New Zealand Investment Trust 9	100.0	-
	New Zealand Investment Trust 14	41.2	66.3
Global Multi-Asset Growth Portfolio	New Zealand Investment Trust 1	100.0	100.0
	New Zealand Investment Trust 7	100.0	100.0
	New Zealand Investment Trust 15	100.0	100.0
Dividend and Growth Portfolio	Private Dividend Yield	32.3	51.1

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## 18. RELATED PARTY (CONTINUED)

### 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 had until 18 November 2016 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 2B below:

TABLE 2B	(REDEMPTIONS)		BALANCE OF INVESTMENTS	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Core Income Portfolio	-	(149)	-	-
Core Inflation Portfolio	-	(159)	-	-
Core Growth Portfolio	-	(318)	-	-
Global Multi-Asset Growth Portfolio	-	(55)	-	-
Global Equity Growth Portfolio	-	(199)	-	-

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

### 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.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 18. RELATED PARTY (CONTINUED)

### Performance fee

The Core Growth Portfolio, the Global Multi-Asset Growth Portfolio, the Global Equity Growth Portfolio and the Dividend and Growth Portfolio may be charged a performance fee by NZ Funds. The performance fee is payable if the returns of a Portfolio in a financial year exceed 8% (hurdle rate of return). The performance fee is 10% of Portfolio returns above the hurdle rate of return. 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.

If a Portfolio incurs a performance fee in a financial year but in the subsequent financial year (rebate year) the Portfolio's returns are less than the hurdle rate of return, NZ Funds will rebate back to the Portfolio some or all of that performance fee. The amount of the rebate is equivalent to 10% of the Portfolio's returns below the hurdle rate of return. The rebate will not be more than the performance fee amount incurred in the previous financial year.

The amount of any performance fee (or rebate, if applicable) due by a Portfolio is paid quarterly. All performance fee amounts are paid to the Supervisor who holds these amounts on trust until the end of the Rebate year. The performance fee (net of any rebates) is not paid to NZ Funds until the end of the rebate year. Before the Supervisor pays any performance fee to NZ Funds, the amount is verified by the Portfolios' auditor. 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 Supervisor.

NZ Funds may alter the rate and basis of calculation of the performance fee and rebate by providing one month's notice to all unitholders in the 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. The management fees, performance fees, expense reimbursements and manager contribution 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	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Management fees incurred	102	73	1,104	911	1,052	803	2,620	2,455	1,422	1,213
Performance fees incurred/(rebated)	-	-	-	-	-	-	-	-	-	-
Expense reimbursements incurred	75	15	158	152	145	75	161	192	97	165
Manager contributions rebates incurred	(75)	-	(58)	(2)	(58)	-	(125)	(4)	(51)	-
<b>TOTAL</b>	<b>102</b>	<b>88</b>	<b>1,204</b>	<b>1,061</b>	<b>1,139</b>	<b>878</b>	<b>2,656</b>	<b>2,643</b>	<b>1,468</b>	<b>1,378</b>

The outstanding management fees, performance fees, expense reimbursements and manager contributions rebates as at 31 March 2017 and 31 March 2016 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	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Management fees payable	8	7	88	82	80	73	190	207	123	105
Performance fees payable/(refundable) to/(from) the Supervisor	-	-	-	-	-	-	-	-	-	-
Expense reimbursements payable	16	4	33	27	30	24	33	57	21	22
Manager contributions rebates receivable	(13)	-	(9)	-	(5)	-	(34)	-	(12)	-
<b>TOTAL</b>	<b>11</b>	<b>11</b>	<b>112</b>	<b>109</b>	<b>105</b>	<b>97</b>	<b>189</b>	<b>264</b>	<b>132</b>	<b>127</b>

18. RELATED PARTY (CONTINUED)

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
1,376	1,214	1,902	2,031	666	600	1,036	1,003	1,292	936
-	-	-	(1,480)	-	-	287	(1,047)	367	116
98	99	123	454	45	74	73	65	90	233
(126)	-	(191)	(8)	(114)	(33)	(159)	(14)	-	-
<b>1,348</b>	<b>1,313</b>	<b>1,834</b>	<b>997</b>	<b>597</b>	<b>641</b>	<b>1,237</b>	<b>7</b>	<b>1,749</b>	<b>1,285</b>

EQUITY INFLATION PORTFOLIO		CORE GROWTH PORTFOLIO		GLOBAL MULTI-ASSET GROWTH PORTFOLIO		GLOBAL EQUITY GROWTH PORTFOLIO		DIVIDEND AND GROWTH PORTFOLIO	
2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
123	105	151	155	50	43	92	66	123	82
-	-	-	(315)	-	-	287	(605)	439	139
21	16	27	27	9	10	16	15	20	26
(24)	-	(59)	-	(19)	-	(33)	-	-	-
<b>120</b>	<b>121</b>	<b>119</b>	<b>(133)</b>	<b>40</b>	<b>53</b>	<b>362</b>	<b>(524)</b>	<b>582</b>	<b>247</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

## 18. RELATED PARTY (CONTINUED)

No related party debts were forgiven or written off during the year (2016: 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 2017 and 31 March 2016, by key management personnel employed by NZ Funds and their close family members.

	BALANCE OF HOLDINGS		NET PURCHASES/(REDEMPTIONS)	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Core Cash Portfolio	87	799	(451)	(226)
Core Income Portfolio	161	233	(77)	(104)
Global Income Portfolio	159	230	(77)	(95)
Core Inflation Portfolio	359	407	(62)	(92)
Property Inflation Portfolio	182	205	(24)	(1)
Equity Inflation Portfolio	178	203	(22)	(178)
Core Growth Portfolio	244	185	50	16
Global Multi-Asset Growth Portfolio	74	49	21	24
Global Equity Growth Portfolio	106	46	51	2
Dividend and Growth Portfolio	126	50	67	(291)

## 19. GUARANTEES

Guarantees were entered into by The New Zealand Guardian Trust Company Limited in its capacity as the Supervisor and NZ Funds in its capacity as the manager of the Core Growth Portfolio, the Global Multi-Asset Growth Portfolio and the Global Equity Growth Portfolio, 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. Note 8 *Trading portfolio assets* and Note 10 *Financial instrument and risk management* quantify the maximum financial exposure of the Portfolios.

## 20. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

No significant capital commitments or contingent liabilities exist as at 31 March 2017 (2016: nil) for any of the Portfolios.

## 21. 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	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Core Cash Portfolio	32,218	34,169	26,377	19,599
Core Income Portfolio	69,347	64,235	57,640	54,829
Global Income Portfolio	63,234	57,988	53,387	49,353
Core Inflation Portfolio	72,289	77,109	54,383	62,429
Property Inflation Portfolio	45,602	38,641	37,578	32,411
Equity Inflation Portfolio	44,170	37,913	36,898	32,259
Core Growth Portfolio	54,138	55,576	42,385	45,880
Global Multi-Asset Growth Portfolio	17,214	16,395	15,623	16,113
Global Equity Growth Portfolio	32,302	27,108	28,679	23,397
Dividend and Growth Portfolio	42,039	29,768	37,490	25,975

Other unitholders 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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