

NZFUNDS

NZ Funds Managed Portfolio Service

Other Material Information

30 June 2017

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1. BACKGROUND

This is an important document that provides you with additional information in relation to your investment in the funds (Portfolios) that make up the NZ Funds Managed Portfolio Service. It should be read together with the NZ Funds Managed Portfolio Service Product Disclosure Statement (PDS), Statement of Investment Policy and Objectives (SIPO) and any other documents held on the offer and scheme registers at www.companiesoffice.govt.nz/disclose.

This document has been prepared in accordance with the requirements of section 57(1)(b)(ii) of the Financial Markets Conduct Act 2013 (FMC Act) and clause 52 of Schedule 4 of the Financial Markets Conduct Regulations 2014 (FMC Regulations). This document relates to all Portfolios offered under the NZ Funds Managed Portfolio Service.

In this document:

- the words 'you', 'your' or 'investor' refer to a person or entity that invests in the Portfolios;
- the words 'NZ Funds', 'we', 'us', 'our' or 'the Manager' refer to New Zealand Funds Management Limited as manager of the Portfolios;
- capitalised terms have the meaning given to them in the Trust Deeds (defined below), unless the context otherwise requires or otherwise defined in this document;
- when we use the word 'current' or 'currently', in relation to legislation, policy, activity or practice we refer to these as at the date of this document. Any legislation, policy, activity or practice may be reviewed or changed without us notifying you.

The information in this document could change in the future. Please check the offer register at www.companiesoffice.govt.nz/disclose for any updates.

2. NZ FUNDS MANAGED PORTFOLIO SERVICE

The NZ Funds Managed Portfolio Service is a series of actively managed Portfolios. Ten Portfolios are offered across four investment categories:

INVESTMENT CATEGORY	PORTFOLIO
Cash	Core Cash Portfolio
Income	Core Income Portfolio Global Income Portfolio
Inflation	Core Inflation Portfolio Equity Inflation Portfolio Property Inflation Portfolio
Growth	Core Growth Portfolio Global Multi-Asset Growth Portfolio Global Equity Growth Portfolio Dividend and Growth Portfolio

The Portfolios are designed to be used in combination and not as stand-alone investments. They are also intended to be used in conjunction with a financial planning process.

The Portfolios are established within two managed investment schemes (Schemes) registered under the FMC Act. The Core Inflation Portfolio and Equity Inflation Portfolio are established within the managed investment scheme registered under the name 'NZ Funds Managed Portfolio Service Part One'. All other Portfolios are established within the managed investment scheme registered under the name 'NZ Funds Managed Portfolio Service Part Two'. References to the 'NZ Funds Managed Portfolio Service' in this document are to both Schemes.

2. NZ FUNDS MANAGED PORTFOLIO SERVICE (CONTINUED)

Each Scheme is governed by a separate amended and consolidated trust deed dated 12 October 2016 (each a 'Trust Deed' and together the 'Trust Deeds'). You can get a copy of the Trust Deeds from the scheme register at www.companiesoffice.govt.nz/disclose.

3. THE MANAGER

About NZ Funds

NZ Funds is the manager of the NZ Funds Managed Portfolio Service.

We were granted a licence to act as the manager of registered schemes under the FMC Act by the Financial Markets Authority (FMA) on 17 May 2016. The licence has a five year term, subject to us maintaining the same or better standard of capability, governance and compliance as was the case when the FMA assessed our licence application. The licence is subject to the normal conditions imposed under the FMC Act and the FMC Regulations, and the standard conditions imposed by the FMA.

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

NZ Funds' directors

The current directors of NZ Funds are:

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

Richard Stuart Taylor James (Dip. Bus. (Finance), Authorised Financial Adviser) is a director and Chief Executive of NZ Funds. Richard joined NZ Funds in 1993 and has worked in a number of areas within the business over that time. Richard became a director of NZ Funds in August 2006 and was appointed Chief Executive in 2009.

Richard is not an independent director as he is an employee of NZ Funds and has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

Michael John Lang (BA (Econ), LLB (Hons), CFA) is a director and Chief Investment Officer of NZ Funds, Head of Wealth at Work and Head of Private Wealth. Michael joined NZ Funds in 1993. He left to work overseas in 2003 and returned in 2008. Michael was appointed Chief Investment Officer in 2009 and became a director of NZ Funds in January 2010.

Michael is not an independent director as he is an employee of NZ Funds and has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

Philip James Doak (BCom (Ag), Dip. Applied Finance & Investment, Authorised Financial Adviser) is a director and was appointed Chief Operating Officer of NZ Funds in 2011. Philip joined NZ Funds in 2005 and is responsible for NZ Funds' operational functions and capabilities. He became a director of NZ Funds in September 2011. Prior to joining NZ Funds, Philip spent 16 years with Westpac where he held executive and general management roles.

Philip is not an independent director as he is an employee of NZ Funds and has an indirect ownership interest in NZ Funds through the IGHL Trust.

Glenn Keith Wright (BCom, BSc, Dip. Bus. (Mktg), Authorised Financial Adviser) is a director of NZ Funds. Glenn joined NZ Funds in 1988 when it commenced business. He currently leads our direct client business. He became a director of NZ Funds in September 2011.

Glenn is not an independent director as he is an employee of NZ Funds and has an indirect ownership interest in NZ Funds through the IGHL Trust.

Gerald Noel Siddall (LLB) is a non-executive director of NZ Funds. Gerald has had 30 years' experience in the financial services industry in New Zealand and overseas. He co-founded NZ Funds in 1988 and was responsible for building and leading NZ Funds until 2009. He was previously a director of NZ Funds until March 2010. He was reappointed as a director of NZ Funds on 21 March 2016.

3. THE MANAGER (CONTINUED)

Gerald is not an employee of NZ Funds. He is not an independent director as he has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

Russell William Tills (BCom, ACA) is a non-executive director of NZ Funds. Russell has had 33 years' experience in the financial services industry in New Zealand and overseas. He joined NZ Funds in 1989 and along with Gerald Siddall, was responsible for building and leading NZ Funds until 2009. He was a director of NZ Funds until March 2010. He was reappointed as a director of NZ Funds on 21 March 2016.

Russell is not an employee of NZ Funds. He is not an independent director as he has a material indirect ownership interest in NZ Funds as the beneficiary of a trust.

The directors of NZ Funds may change from time to time without us notifying you. You can find the names of our directors at any time at www.companiesoffice.govt.nz/companies.

4. OTHER PARTIES

Supervisor

The New Zealand Guardian Trust Company Limited is the supervisor (Supervisor) of the NZ Funds Managed Portfolio Service. The Supervisor has been granted a licence by the FMA under the Financial Markets Supervisors Act 2011 to act as a supervisor in respect of debt securities and certain registered schemes, for a term expiring on 16 March 2018. Further information on the Supervisor's licence is available on the FMA's website at www.fma.govt.nz.

The current directors of the Supervisor are:

- Robin Albert Flannagan
- James Earl Douglas

The directors of the Supervisor may change from time to time without us notifying you. You can find the names of the Supervisor's directors at any time at www.companiesoffice.govt.nz/companies.

Custodian

The Supervisor is responsible for holding the property of the Portfolios. The Supervisor has entered into custodial services agreements with Citibank N.A. to provide custodial services to the Portfolios however all property of the Portfolios is currently held by the Supervisor and not by Citibank N.A. Citibank N.A. may hold property of the Portfolios in the future without us notifying you.

Auditors

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

Solicitors

The solicitors for the Portfolios are Russell McVeagh, Auckland.

5. SUPERVISOR AND MANAGER INDEMNITY

Subject to the limits on permitted indemnities under the FMC Act, the Supervisor and the Manager are entitled to be indemnified out of the relevant Portfolio's assets for all liabilities, losses and costs incurred by the Supervisor or the Manager (as applicable) in performing any of their respective duties or exercising any of their respective powers in relation to the Portfolio, and against all actions, proceedings, claims and demands in respect of any matter relating to the Portfolio.

The indemnity above does not apply to any liabilities, losses, costs, actions, proceedings, claims or demands arising out of wilful default or wilful breach of trust by the Supervisor or the Manager (as applicable).

5. SUPERVISOR AND MANAGER INDEMNITY (CONTINUED)

Further information regarding the Supervisor's and the Manager's responsibilities and indemnities is set out in the Trust Deeds.

6. OTHER KEY TERMS

Set out below is a summary of other relevant terms relating to the Portfolios. The Trust Deeds contain further terms governing each respective Scheme and the Portfolios established within that Scheme. For more detailed information, please see the copy of the Trust Deeds available on the scheme register at www.companiesoffice.govt.nz/disclose.

Separate funds

Each Portfolio is a separate and independent fund with separate assets and liabilities. No Portfolio is responsible for the liabilities of another Portfolio in the relevant Scheme. All investments of a Portfolio are held by the Supervisor as the exclusive property of that Portfolio, and for the exclusive benefit of unit holders in that Portfolio.

Valuation

Unit prices are calculated by reference to the net asset value of the relevant Portfolio at the time, divided by the number of units on issue in the Portfolio. The net asset value of a Portfolio means the value of the assets of the Portfolio less the liabilities attributed or attributable to that Portfolio. The Trust Deeds set out the principles that apply to the valuation of a Portfolio's assets and the determination of liabilities attributable to a Portfolio.

We may at any time, determine the value of any asset in a Portfolio or the amount of any liability attributable to a Portfolio. We generally calculate the net asset value of a Portfolio each Business Day.

We may determine valuation methods and policies for each category of asset and change them from time to time provided the Supervisor approves such valuation methods and policies and we notify the Supervisor of any changes made. Our policy permits the use of estimates in asset valuations, for example, where assets are illiquid or infrequently traded.

In determining the Issue Price for a unit, under the Trust Deeds we may add to the net asset value of the relevant Portfolio an amount for transaction costs (being our estimate of the costs or partial costs of acquiring the assets of that Portfolio). Similarly, in determining the Redemption Price for a unit, we may deduct from the net asset value of the relevant Portfolio an amount for transaction costs (being our estimate of the costs or partial costs of selling the assets of that Portfolio). We can determine this amount in our discretion and whether or when it applies. We currently do not apply transaction costs.

We may use the calculated Issue Price and Redemption Price for a unit at the end of any month for the period of up to two Business Days after the end of that month.

Issue of units

Units are issued at our discretion, and we may decline to accept any application for units in a Portfolio in whole or in part. No reasons are required to be given if we decline to accept an application. We can also defer accepting any application by up to two Business Days.

The process for investing in the Portfolios is set out in the PDS. Application monies are paid into a non-interest bearing bank account upon receipt and applied to the relevant Portfolio(s) once the application is accepted in accordance with the relevant Trust Deed. Application monies must be in New Zealand dollars unless we agree otherwise.

We may set a minimum or maximum amount for investment in any Portfolio. There are currently no minimum or maximum investment amounts set. However, we may introduce a minimum or maximum investment amount without notifying you.

Withdrawals

Subject to current redemption restrictions and our right to defer or suspend withdrawals (see below), we are required to redeem any units in a Portfolio in respect of which a withdrawal request is received from you in accordance with the procedures set out in the relevant Trust Deed. You may not revoke any withdrawal request unless we agree.

We may introduce restrictions and limitations on redemptions. Currently, all Portfolios (other than the Core Cash Portfolio) have a

6. OTHER KEY TERMS (CONTINUED)

63 day redemption notice period which means you must give us 63 days notice of your intention to redeem. We may change these notice periods without notifying you.

Redemption proceeds are based on the Redemption Price per unit redeemed. Where a redemption notice period applies, the Redemption Price will be calculated on the day on which the notice period expires (or if that day is not a Business Day, on the next Business Day). Where there is no redemption notice period, the Redemption Price will be calculated on the day on which we receive your withdrawal request (or if that day is not a Business Day, on the next Business Day).

Under the Trust Deed, we are required to pay redemption proceeds within 20 Business Days of the redemption date (subject to our right to defer or suspend redemptions below). However, in normal circumstances payment will be made within four Business Days of the redemption date.

Deferral and suspension of withdrawals

Where we receive withdrawal requests for more than 10% of the units in a Portfolio, we may 'scale back' withdrawal requests so that only a proportion of units requested to be redeemed are redeemed. Any units not redeemed on a redemption date as a result of us scaling back withdrawal requests may be redeemed by us at any time. There is no specific time period within which we must redeem units in these circumstances.

Under each Trust Deed, we may defer redeeming units for up to two Business Days. In certain circumstances, we may also suspend redemptions by issuing a redemption suspension notice (for example, where we in good faith form the opinion that it is not practicable, or would be materially prejudicial to the interests of any unit holders, to realise assets in order to permit redemptions – this could be due to market conditions, the nature of any asset or other circumstances). A redemption suspension notice provided by us to a unit holder has the effect of suspending the operation of all withdrawal and switch requests until such time as we give notice that the suspension is cancelled.

Except in the case of the Core Inflation Portfolio and Equity Inflation Portfolio, there is no limit on the period of suspension for any Portfolio. The maximum suspension period for the Core Inflation Portfolio and Equity Inflation Portfolio is 90 days. However, we may extend the suspension period for longer than 90 days with the agreement of the Supervisor. The Supervisor cannot unreasonably withhold its agreement.

Notwithstanding that a redemption suspension notice has been given for a Portfolio, we may allow you to redeem units:

- If in our reasonable opinion, to suspend the operation of your withdrawal or switch request would cause you financial hardship;
- If you have an arrangement in place with us whereby you make regular withdrawals; or
- In any other circumstances we consider reasonable.

Closure of your investment

In some circumstances, we may need to redeem all your units or close your investment in a Portfolio. This may occur where we consider doing so is necessary to comply with any applicable laws or to avoid adverse regulatory consequences for us, the Supervisor, the Portfolio or investors in the Portfolio generally.

We may also redeem all your units where your withdrawal request would leave you with less than the minimum holding, or where it is necessary to preserve a Portfolio's eligibility for PIE status.

Borrowing

The Portfolios do not currently borrow to invest - that is, the Portfolios do not borrow money from a bank or other lender under a loan facility agreement for the purpose of investing (excluding ongoing operational agreements with service providers such as overdraft facilities and creditor relationships).

Under the Trust Deeds, we may, and may direct the Supervisor to, borrow on behalf of any Portfolio and give security in respect of any borrowing over all or any part of the assets of a Portfolio.

In the case of the Core Inflation Portfolio and Equity Inflation Portfolio, the total amount borrowed and outstanding must not exceed 50% of the gross value of the assets of that particular Portfolio. There is no limit under the relevant Trust Deed on the amount of borrowing for the other Portfolios.

6. OTHER KEY TERMS (CONTINUED)

Winding-up/insolvency

If a Portfolio is wound up or becomes insolvent, the assets of the Portfolio will be sold and the proceeds applied first to meet the claims of any creditors. Creditor claims include any claims by the Supervisor, the Manager or any other party for fees or expenses. Investors will rank behind all creditors of the Portfolio for payment. Your claims will rank equally with other investors in the Portfolio.

You are not liable to pay money to any person beyond the amount of your original investment, other than any PIE tax attributable to you.

Indemnity for tax liability

You indemnify the Supervisor and us for tax paid on income attributed to you by a Portfolio. This indemnity only applies if your interest in a Portfolio is not sufficient to meet any tax liability on income attributed to you (see section 11 'Taxation' on page 14).

Changes to Trust Deeds

Subject to the FMC Act and the provisions of the relevant Trust Deed, a Trust Deed may be amended by special resolution of the unit holders or if we agree with the Supervisor to do so. The Supervisor must be satisfied that the amendment does not have a material adverse effect on unit holders (unless affected unit holders approve the amendment by special resolution). The Trust Deeds can also be amended in accordance with applicable legislation (such as the Financial Markets Supervisors Act 2011).

7. ADDITIONAL INFORMATION ABOUT FEES

Management fee

We are entitled to charge each Portfolio a management fee. Management fees are fixed as a percentage of the gross asset value (i.e. total assets) of each Portfolio. The current management fees (estimated as a percentage of net asset value) are disclosed in the PDS. Management fees are accrued daily and paid to NZ Funds monthly in arrears.

We may change the management fee at any time provided that, in the case of any increase, we give one month's prior notice to investors in the relevant Portfolio.

We may decide to charge an investor, or group of investors (including, without limitation, any group of investors advised by a financial adviser) lower management fees than currently disclosed in the PDS or we may decide to rebate all or a proportion of our management fees for that investor or group of investors.

Supervisor fee

The Supervisor is entitled to charge a fee for its services. The Supervisor fee for each Portfolio is currently up to 0.04% per annum of the gross asset value of the Portfolio, subject to a minimum of \$30,000 across all of the Portfolios. Supervisor fees are accrued daily and paid by the Portfolios monthly in arrears. Estimates of Supervisor fees are included within 'administration charges' in the PDS.

The Supervisor may, with our agreement, change the Supervisor fee at any time provided that we or the Supervisor give one month's prior notice to investors.

Expense reimbursement

The Trust Deeds allow us, the Supervisor, and any parties that may be appointed by us or the Supervisor, to (subject to the proper performance of our respective duties) be reimbursed for all expenses properly incurred while carrying out our duties in relation to a Portfolio. This expense reimbursement is paid out of the assets of the relevant Portfolio. Estimates of expense reimbursement are included within 'administration charges' in the PDS.

Professional fees

The Portfolios may incur professional fees such as fees for legal, accounting and audit services. The Trust Deeds allow these professional fees to be paid out of the assets of the relevant Portfolio. Estimates of these fees are included within 'administration charges' in the PDS.

7. ADDITIONAL INFORMATION ABOUT FEES (CONTINUED)

Underlying fund fees

The Portfolios currently invest in wholesale funds managed by us (Wholesale Trusts). These Wholesale Trusts incur fees and expenses. Some of these fees and expenses are paid to us and entities associated with us (see below for more information). The Portfolios and Wholesale Trusts may also invest in other funds managed by external specialist investment managers which may charge fees including entry fees, exit fees, management and performance fees, and incur expenses. The returns of a Portfolio in which you are invested will be indirectly affected by these underlying fund fees and expenses.

Estimates of underlying fund fees and expenses (excluding external manager performance fees which are disclosed separately) are included within 'administration charges' in the PDS.

Wholesale Trusts and fees payable to NZ Funds and its associated entities

The Wholesale Trusts may be either New Zealand or Australian unit trusts. New Zealand Funds Superannuation Limited (NZFSL), a wholly-owned subsidiary of NZ Funds, is currently the trustee of the New Zealand Wholesale Trusts. Global Investment Services Limited (GISL), a wholly-owned subsidiary of IGHL, is currently the trustee of the Australian Wholesale Trusts. NZFSL and GISL are each entitled to charge a trustee fee for the services they provide as trustee of the Wholesale Trusts. The current trustee fee charged by NZFSL is \$100,000 per annum across all of the New Zealand Wholesale Trusts. The current trustee fee charged by GISL is AUD100,000 per annum across all of the Australian Wholesale Trusts. These fees may be altered by agreement between the relevant parties without us notifying you.

NZ Funds acts as manager of the New Zealand Wholesale Trusts and as investment manager of the Australian Wholesale Trusts. NZ Funds is entitled to charge a fee for the services it provides as manager and investment manager of the Wholesale Trusts. The current maximum fees that may be payable to NZ Funds are set out in the table below.

New Zealand Administration Services (a wholly-owned subsidiary of NZ Funds) acts as the administration manager of the Wholesale Trusts and is entitled to charge an administration fee for the services it provides as administration manager. The current administration fee is set out in the table below.

Management and administration fees payable by Wholesale Trusts to NZ Funds and its associated entities:

	MANAGEMENT/INVESTMENT MANAGEMENT FEE (P.A.)	ADMINISTRATION FEE (P.A.)
Wholesale Trusts (holding predominantly cash and cash equivalents)	0.05%	0.10%
Wholesale Trusts (holding predominantly income assets)	0.35%	0.10%
Other Wholesale Trusts	0.70%	0.10%

All fees are expressed as a percentage of the gross asset value of the Wholesale Trust

In addition to the above fees, we and our associated entities are entitled to be reimbursed from the Wholesale Trusts for expenses incurred in carrying out our respective duties in relation to the Wholesale Trusts. However, we and our associated entities, currently meet all ordinary expenses from the fees we receive and do not charge these expenses to the Wholesale Trusts. If extraordinary or unusual expenses are incurred, these may be charged to the Wholesale Trusts.

The trustee fees, management and investment management fees, and administration fees payable by the Wholesale Trusts may be changed by agreement between the relevant parties without us notifying you.

All fees paid by the Wholesale Trusts to us and our associated entities are on arms' length terms (or terms less favourable to us as the related party) and meet the requirements governing related party transactions set out in the FMC Act.

Basis for estimates of fund charges in PDS

The annual fund charges in the PDS include estimates of management fees, Supervisor fees, professional fees, expense reimbursement, underlying fund fees and expenses (including external manager performance fees), and NZ Funds performance fees.

Estimates of performance fees are discussed separately below. All other estimates are based on the assumption that the ongoing level

7. ADDITIONAL INFORMATION ABOUT FEES (CONTINUED)

of these charges, as a percentage of the net asset value of the relevant Portfolio, will be similar to those charged in the most recent financial year.

Actual annual fund charges for each Portfolio for the most recent year are available in the latest fund update.

External manager performance fees

The annual fund charges in the PDS include estimates of performance fees that may be charged by underlying specialist investment managers. A performance fee is typically only charged by a specialist investment manager when its investment return outperforms either a benchmark or a performance hurdle (which may be 0%).

Estimates of external manager performance fees in the PDS are based on annualised average returns of certain hedge fund indices over the five years to 30 April 2017. Assumptions on the percentage of each Portfolio invested in external managers that charge performance fees have been made using our experience of the Portfolios' historical external manager allocations.

Past performance is not indicative of future performance and the estimates are not intended to indicate any expected returns or fees. In addition, the specialist investment managers and the Portfolios' allocation to those managers will change from time to time. Actual performance fees will depend on the managers selected, their performance, and the Portfolios' allocation to those managers, and will vary from the estimates.

NZ Funds performance fees

NZ Funds may charge a performance fee in the Core Growth Portfolio, the Global Multi-Asset Growth Portfolio, the Global Equity Growth Portfolio, and the Dividend and Growth Portfolio, as described in the PDS. The annual fund charges in the PDS include estimates of NZ Funds performance fees. These estimates are based on our estimation of the expected long term average annual return for the Growth Portfolios and take into account our estimation of the extent to which the return may vary from the average annual return.

The estimates are not intended to indicate any expected returns or fees. Actual performance fees will depend on the performance of the Portfolios and will vary from the estimates. Actual NZ Funds performance fees for the most recent year are available in the latest fund update.

Individual action fees

We do not currently charge contribution (entry) fees, redemption (exit) fees, switch fees or transfer fees. However we may introduce such fees at any time without notifying you.

Financial adviser fees

Your financial adviser may charge fees for financial advisory services they provide, together with implementation and withdrawal fees. These fees, including how and when the fees are payable, should be agreed between you and your financial adviser before an investment is made. Details of these fees are required to be outlined in your financial adviser's disclosure statement. These fees are payable by you to your financial adviser, and may, if authorised by you, be deducted from your investment in the Portfolios.

We may charge a fee for financial advisory services provided by an NZ Funds' financial adviser, which will be set out and payable in the same way as above.

GST

All fees are stated exclusive of GST or other similar tax. This means that if any GST or other similar tax is payable on any fee, that tax will be payable in addition to the amount of the fee.

Contribution to fees

We may in our discretion and from our own funds, reduce, pay, contribute to or rebate some of the fees and expenses discussed above.

Limits

There are no limits under the Trust Deeds or elsewhere on the fees that may be charged or the expenses which may be claimed by us or any other person referred to in this section.

7. ADDITIONAL INFORMATION ABOUT FEES (CONTINUED)

Administration payment

We may pay financial advisers an administration payment to assist them with the costs associated with providing financial advice to you. Any such payments will be made by us out of our own funds and we are not entitled to be reimbursed from the Portfolios for these payments.

8. ECONOMIC EXPOSURE

This section provides additional information on the Portfolios' economic exposure and should be read in conjunction with the PDS.

Economic exposure is a measure developed and used by NZ Funds to illustrate the aggregate exposure that a Portfolio has to the various asset classes it is invested in. Economic exposure is calculated using NZ Funds' methodology which sets out how each investment type (including each derivative type) is treated when calculating economic exposure. Some examples are included below. For more information on our methodology, please contact NZ Funds. NZ Funds may change its calculation methodology from time to time without notifying you.

Portfolio economic exposure: 31 March 2015 – 31 March 2017

The following table shows the range of each Portfolio's economic exposure during the years ended 31 March 2015, 2016 and 2017.

PORTFOLIO	2015	2016	2017
Core Cash Portfolio	100%	100%	100%
Core Income Portfolio	100% - 102%	100% - 110%	100% - 120%
Global Income Portfolio	100% - 102%	100% - 110%	100% - 119%
Core Inflation Portfolio	100% - 117%	102% - 169%	109% - 168%
Equity Inflation Portfolio	101% - 112%	103% - 118%	101% - 117%
Property Inflation Portfolio	100% - 108%	101% - 129%	101% - 129%
Core Growth Portfolio	138% - 203%	130% - 243%	153% - 244%
Global Multi-Asset Growth Portfolio	118% - 157%	129% - 217%	133% - 240%
Global Equity Growth Portfolio	109% - 178%	106% - 213%	135% - 229%
Dividend and Growth Portfolio	100% - 114%	100% - 120%	100% - 137%

Where economic exposure exceeds 100%, this means the aggregate exposure of the Portfolio is greater than the Portfolio's net asset value and generally (but not always) means the Portfolio is leveraged. A common difference is purchasing an investment denominated in a foreign currency does not require leverage, however the foreign currency exposure would be included as additional exposure in NZ Funds' economic exposure calculation (as illustrated in example three below).

NZ Funds currently limits the economic exposure for the Core Cash Portfolio to an amount of 100% (or the Portfolio's net asset value), and for each of the Core Income Portfolio, Global Income Portfolio, Core Inflation Portfolio, Equity Inflation Portfolio, and

8. ECONOMIC EXPOSURE (CONTINUED)

Property Inflation Portfolio, to an amount of 300% (or three times the Portfolio's net asset value). There is no limit on economic exposure for the Core Growth Portfolio, Global Multi-Asset Growth Portfolio, Global Equity Growth Portfolio, and Dividend and Growth Portfolio.

The economic exposure of each Portfolio changes frequently and changes can be material. Each Portfolio's economic exposure is published monthly in NZ Funds' 'Portfolio Insights' document which is available on our website at www.nzfunds.co.nz.

Examples of economic exposure calculation

The following examples provide an illustration of how certain investments are treated when calculating economic exposure, and where the use of derivatives results in leverage and where it does not.

- **Example 1: Derivative used, economic exposure = 100%, no leverage**

A Portfolio holds 100% cash and purchases a New Zealand share market index future (a derivative) to gain an index exposure to New Zealand shares. If the derivative provides an exposure of 90%, the economic exposure of the Portfolio will be 100% (10% to cash and 90% to New Zealand shares via the derivative). In this example, the use of a derivative does not result in economic exposure of the Portfolio exceeding 100% and the Portfolio is not leveraged.

- **Example 2: Derivative used, economic exposure > 100%, leverage**

A Portfolio holds 100% New Zealand bonds and purchases a New Zealand share market index future (a derivative) to gain an index exposure to New Zealand shares. If the derivative provides an exposure of 90%, the economic exposure of the Portfolio will be 190% (100% to New Zealand bonds and 90% to New Zealand shares via the derivative). In this example, the use of a derivative results in economic exposure of the Portfolio exceeding 100% and the Portfolio is leveraged.

- **Example 3: No derivative used, economic exposure > 100%, no leverage**

A Portfolio holds 100% Australian shares (denominated in Australian dollars) where the currency exposure is not hedged back into New Zealand dollars. The economic exposure of the Portfolio will be 200% (100% to Australian shares and 100% to the Australian dollar/New Zealand dollar exchange rate). In this example, economic exposure of the Portfolio exceeds 100%, however no derivative is used and the Portfolio is not leveraged.

9. RISKS

Every investment has risk. The primary risks of investing in a Portfolio include:

- Not getting back some or all of your money;
- Not getting the returns you expected;
- Not being able to withdraw from a Portfolio when you want to; and
- Experiencing periods where your returns are negative.

In addition to the general investment risks and other specific risks set out in the PDS, there are other risks associated with the Portfolios that could impact your investment (discussed below). If any of these risks eventuate, you could receive back less than you invested.

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

General investment risks

In the PDS, we set out some of the general investment risks that apply to investing in the Portfolios. The following provides some examples of the different types of risk that contribute to market risk.

Currency risk

The Portfolios' unit prices are denominated in New Zealand dollars but the Portfolios may be exposed directly or indirectly to foreign currencies or investments denominated in foreign currencies. Currency risk is the risk that a Portfolio's returns may be affected by changes in the value, or terms, of a currency.

9. RISKS (CONTINUED)

Interest rate risk

Interest rate risk is the risk that a Portfolio's returns may fluctuate as a result of changes in interest rates.

Credit risk

Credit risk is the risk that an issuer of a security may fail to pay interest or principal when due.

Equity risk

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

Political risk

Political risk is the risk that a Portfolio's returns may fluctuate as a result of political changes or instability in a country. This could arise from a change in government, legislative bodies, other foreign policy makers, or military actions.

Other general risks

Counterparty risk

Counterparty risk is the risk that a counterparty to a contract fails to meet its obligations under the contract, causing loss to a Portfolio.

Operational risk

The Portfolios may be exposed to operational risks that result from external events or failure of internal or external processes, people, policies, technology or systems (for example, a material error in the pricing process). Operational risk may adversely affect the Portfolios.

Service provider risk

A range of parties are involved in the operation of the Portfolios (including the Supervisor, the Manager, the trustee and custodian of the Wholesale Trusts, underlying specialist investment managers, settlement and trade counterparties, investment brokers and banks). Service provider risk is the risk that any of these parties fail to perform their obligations. If this occurs, the Portfolios may be adversely affected.

Wholesale Trust investment risk

The Portfolios invest in Wholesale Trusts (with the current exception of cash and cash equivalents and derivatives). Wholesale Trust investment risk is the risk that if an adverse event occurs at the Wholesale Trust level or the Wholesale Trusts are wound up, the Portfolios may be adversely affected.

Valuation risk

The Portfolios' unit prices are based on market price information. Valuation risk is the risk that the market fails to provide an accurate price, or any price whatsoever. If this occurs, the Portfolios may be adversely affected.

Suspension of withdrawals risk

In certain circumstances, we have the ability to suspend or partially suspend withdrawals from a Portfolio. If this occurs, you may not be able to withdraw or switch your investment when you would otherwise be entitled to.

Risk of losing PIE tax status

Each Portfolio is currently a Portfolio Investment Entity (PIE). If a Portfolio elects to surrender its PIE tax status, we will give you prior notice. However, it is possible that a Portfolio ceases to be a PIE without election. If a Portfolio loses its PIE tax status, your after-tax benefit from investing in the Portfolio may be reduced and/or the Portfolio may be adversely affected.

Tax risk

Income, dividends and interest, and gains on securities and investments in which the Portfolios invest may be subject to taxes (including withholding taxes) imposed by tax authorities in New Zealand and other jurisdictions, now or in the future. The Portfolios may not be able to claim a credit for any taxes imposed. Tax risk may adversely affect the Portfolios.

9. RISKS (CONTINUED)

Regulatory risk

The Portfolios and their investments are subject to laws and regulations (including in relation to tax) in New Zealand and other jurisdictions in which the Portfolios invest. Any changes to those laws and regulations may adversely affect the Portfolios and/or their investments.

Insolvency risk

Insolvency risk is the risk of a Portfolio becoming insolvent or being otherwise unable to meet its financial obligations. If this occurs, you may not recover the full amount of your investment.

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

10. CONFLICTS OF INTEREST

NZ Funds has policies and procedures in place to identify and manage actual or potential conflicts of interest that may arise. The NZ Funds Conflicts of Interest Policy provides a framework for identifying, declaring and managing conflicts of interest. The policy also covers gifts and hospitality.

The Conflicts of Interest Policy is complemented by NZ Funds' Personal Holdings Policy. The Personal Holdings Policy includes a prohibition against employees holding or trading in securities unless otherwise permitted by the policy or approved by the NZ Funds Board.

The NZ Funds Related Party Transactions Policy provides a framework for identifying and managing related party transactions (as defined under the FMC Act) and ensures that all related party transactions comply with the requirements of the FMC Act.

A conflict of interest that currently exists and affects every Portfolio is the Portfolios' investment in the Wholesale Trusts managed by us and where our associated persons provide trustee and/or administration services. We and our associated persons charge fees in respect of the services we provide to the Wholesale Trusts (see page 9 for more information on these fees). These fees will affect the value of the Wholesale Trusts and consequently affect the returns of the Portfolios. This conflict of interest could materially influence the investment decisions in respect of the Portfolios if non-arm's length fees were paid for these services. We manage this conflict by ensuring that all related party fee transactions comply with the requirements of the FMC Act and NZ Funds' Related Party Transactions Policy.

In addition to NZ Funds' policies and procedures described above, the FMC Act imposes statutory controls on conflicts of interest, including the following:

- We must, in exercising any power, or performing any duties, exercise the care, diligence and skill that a prudent person engaged in the profession of acting as manager of a registered scheme (as defined in the FMC Act) would exercise in those circumstances; act honestly in acting as manager; act in the best interests of investors; and treat investors fairly.
- We must not make use of information acquired through being the manager in order to gain an improper advantage for ourselves, or any other person, or cause detriment to investors.

The above statutory controls have, where appropriate, been built into NZ Funds' Conflicts of Interest Policy.

1.1. TAXATION

This section contains a general summary of the taxation implications of investing in a Portfolio. It is based on current tax law and is subject to change. You are encouraged to seek professional advice before making an investment. We and the Supervisor do not take any responsibility for your particular tax position as a result of an investment in a Portfolio.

Portfolio Investment Entities (PIEs)

Each Portfolio has elected to be a Portfolio Investment Entity (PIE) under the PIE rules. In order for you to benefit from the tax treatment described above, a Portfolio must continue to comply with the PIE rules.

If PIE status is lost, the after-tax returns from your investment in that Portfolio may be reduced.

The PIE rules allow you to effectively pay tax on your investment in the Portfolio at a maximum tax rate of 28%.

The amount of taxable income or loss of a Portfolio allocated to you is calculated daily and attributed to you on a quarterly basis, within five Business Days of the end of each quarter.

For a quarter in which there is tax to pay, the Portfolio will cancel a number of your Units (unless you are a zero-rated Unit Holder) to fund your tax liability and will then pay this amount to Inland Revenue.

If a Portfolio receives a tax refund, it will allocate that refund to Unit Holders (other than zero-rated Unit Holders) in the Portfolio during that quarter on a daily basis, and attributed to them quarterly. Where you are an investor in a Portfolio at the time the refund is paid, the refund will be used to purchase additional Units in the Portfolio. If you are no longer in the Portfolio at the time the refund is paid, your refund will be paid directly to you.

It is important to note that while the tax cost is effectively borne by Unit Holders (except for zero-rated Unit Holders) it remains a liability of the PIE.

Prescribed Investor Rate (PIR)

You must elect a PIR and provide us with your IRD number. If you are not a New Zealand tax resident, you will not need to supply an IRD number, but you will need to advise your country of residence.

It is important that you select the correct PIR. To select your correct PIR you need to calculate your taxable income (which includes your worldwide income and may include income when you were not resident in New Zealand) and PIE income for each of the previous two income years (an income year is the period from 1 April in one year to 31 March the next year). The PIR applying to you is then determined based on the year which has the lower combined income amount.

The PIR rates for an individual are:

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

If you do not provide us with a PIR then income attributed to you will be taxed at 28% (unless you are a company, in which case a PIR of 0% will be applied).

If you select a PIR that is too high, there is no ability under current law to obtain a refund for the excess tax paid. If you select a PIE tax rate that is too low, you may have to file a tax return and pay tax at your marginal tax rate (you will get a credit for tax paid on your behalf by the Portfolio).

11. TAXATION (CONTINUED)

Different rules for selecting your PIR apply for trusts and companies.

For trusts, the following PIR options are available:

- Testamentary trusts – 0%, 10.5%, 17.5% or 28%.
- For all other trusts – 0%, 17.5% or 28%.

Companies and all other types of entity clients must elect a 0% PIR.

You can change your PIR at any time by completing a 'Notice to Change PIE Details' form. This form is available from us or your financial adviser.

In some circumstances we are entitled to treat you as having a 0% PIR. Most commonly this will occur where the amount of tax on income attributable to you exceeds the value of your interest in the Portfolio. Where this happens, we are entitled to cancel all of your Units and pay the proceeds from the cancellation to Inland Revenue.

We can also treat you as having a 0% PIR for a quarter where you reduce your holding in, or fully withdraw from, a Portfolio in the first 5 days of the next quarter. If you do this, the income for this period will be taxable income to you.

If you have elected a 0% PIR (or if we have treated you as having a 0% PIR), you may be required to file a tax return and pay tax on the income allocated to you. Any tax paid by the Portfolio on your behalf is available as a tax credit against your tax liability.

If the amount of tax on income attributable to you exceeds the value of your interest in a Portfolio you may have to satisfy the tax liability directly to Inland Revenue. If NZ Funds or the Supervisor pays this tax liability, you indemnify us or the Supervisor for that amount.

12. PRIVACY AND USE OF YOUR PERSONAL INFORMATION

Privacy

The Privacy Act 1993 deals with how we store and use the personal information you provide to us in connection with your investment in the NZ Funds Managed Portfolio Service.

This information may be used by NZ Funds and the Supervisor (including their related entities) and shared with and used by your financial adviser and by other service providers to the Portfolios, for the purposes of enabling NZ Funds and those service providers to arrange, manage and administer your investment, to contact you in relation to your investment, and to provide you with newsletters and information about other products and services.

We may also use and share your personal information for the purposes of complying with any laws in New Zealand or another country, including using it to verify (whether by electronic means or otherwise) any identity information provided to us.

We may also share your personal information with relevant authorities, including the Financial Markets Authority and Inland Revenue.

You have the right to access all personal information held about you in connection with your investment in the NZ Funds Managed Portfolio Service. If any of the information is incorrect, you have the right to have it corrected under the Privacy Act.

AML

Under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, we are required to verify your identity and address and in some cases, proof of the source of your funds. We have developed various "AML forms" for this purpose which are available on our website at www.nzfunds.co.nz and which will guide you through the AML process.

If you complete the Application Form with a financial adviser, he or she may be able to verify both your identity and residential address as indicated in the relevant AML forms.

If you are completing the AML forms without the assistance of a financial adviser, the identification documents can be certified by a 'trusted referee'. Again, further details regarding this certification process are contained in the AML forms.

AML verification requirements also apply to trusts, companies and other entity types. A combination of AML forms will need to be used for these entities. Your financial adviser will be able to assist you to complete these forms.

12. PRIVACY AND USE OF YOUR PERSONAL INFORMATION (CONTINUED)

Please note that we cannot process your application unless all AML required forms are completed correctly and accompanied by the appropriate information and documents.

Foreign Account Tax Compliance Act (FATCA)

If you are a "US Person" (that is, someone who is a United States citizen or tax resident, or a United States Green Card holder, or an entity owned or controlled by US persons) we may be required to provide certain information about your investment in the NZ Funds Managed Portfolio Service to Inland Revenue in order to satisfy our obligations under the Foreign Account Tax Compliance Act (FATCA). Inland Revenue in turn may be required to pass this information to the United States Internal Revenue Service.

If you are a US Person, you agree that we may provide this information to Inland Revenue in order to satisfy our FATCA obligations.

Common Reporting Standard (CRS)

If you are tax resident in a country other than New Zealand, or an entity owned or controlled by non-New Zealand tax residents we may be required to provide certain information about your investment in the NZ Funds Managed Portfolio Service to Inland Revenue in order to satisfy our obligations under the Common Reporting Standard (CRS) regime. Inland Revenue in turn may be required to pass this information to the revenue authority of the country in which you are tax resident.

If you are tax resident in a country other than New Zealand, you agree that we may provide this information to Inland Revenue in order to satisfy our CRS obligations.

Change of personal details

If you wish to change your personal details, please complete a Changes in Client Details form. You can obtain this form from your financial adviser or from our website at www.nzfunds.co.nz.

13. MATERIAL CONTRACTS

The following is a summary of the contracts that we consider to be material in relation to the Portfolios.

Trust Deeds

The Trust Deeds are agreements between us and the Supervisor which came into effect on 1 November 2016. Each Trust Deed governs the establishment and management of the relevant Scheme and the Portfolios established within that Scheme. A copy of each Trust Deed is available on the scheme register at www.companiesoffice.govt.nz/disclose.

Management Agreement

We have entered into a management agreement (Management Agreement) with the Supervisor dated 12 October 2016 (with an effective date of 1 November 2016) that sets out the arrangements between us and the Supervisor in relation to certain operational matters relating to the Schemes and the Portfolios. The Management Agreement specifies the reporting and information to be provided by us to the Supervisor, the requirements for operating the Portfolios' bank accounts, and record keeping.

Nothing in the Management Agreement limits or alters the powers of the Supervisor or our duties under the Trust Deeds and applicable law. In the event of any inconsistency between the Management Agreement and a Trust Deed, the relevant Trust Deed will prevail.

Guarantees

A guarantee dated 30 July 2010 (as amended) executed by Perpetual Trust Limited (a previous trustee) in its capacity as trustee of the Global Multi-Asset Growth Portfolio and NZ Funds in its capacity as manager of the Global Multi-Asset Growth Portfolio in favour of Citibank N.A. and Citigroup Global Markets Limited (together 'Citigroup') guaranteeing the liabilities and obligations owing to Citigroup by Global Investment Services Limited, in its capacity as trustee of the wholesale trust, Derivative Investment Trust 5, under certain agreements.

A guarantee dated 30 July 2010 (as amended) executed by Perpetual Trust Limited (a previous trustee) in its capacity as trustee of the Core Growth Portfolio and the Manager in its capacity as manager of the Core Growth Portfolio in favour of Citibank N.A. and Citigroup

13. MATERIAL CONTRACTS (CONTINUED)

Global Markets Limited (together 'Citigroup') guaranteeing the liabilities and obligations owing to Citigroup by Global Investment Services Limited, in its capacity as trustee of the wholesale trust, Derivative Investment Trust 7, under certain agreements.

A guarantee dated 30 July 2010 (as amended) executed by Perpetual Trust Limited (a previous trustee) in its capacity as trustee of the Global Equity Growth Portfolio and the Manager in its capacity as manager of the Global Equity Growth Portfolio in favour of Citibank N.A. and Citigroup Global Markets Limited (together 'Citigroup') guaranteeing the liabilities and obligations owing to Citigroup by Global Investment Services Limited, in its capacity as trustee of the wholesale trust, Derivative Investment Trust 9, under certain agreements.

14. ADDITIONAL INFORMATION ABOUT MARKET INDICES

Additional information about the market indices referred to in the SIPO can be found on the following web pages listed below.

S&P/NZX Call Rate Deposit Index Total Return	www.us.spindices.com/indices/fixed-income/sp-nzx-call-rate-deposit-index
S&P/NZX Investment Grade Corporate Bond Index Total Return	www.us.spindices.com/indices/fixed-income/sp-nzx-investment-grade-corporate-bond-index
Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD	www.bloomberg.com/quote/LGCPTRUU:IND
S&P/NZX Bank Bills 90 Day Index Total Return	www.us.spindices.com/indices/fixed-income/sp-nzx-bank-bills-90-day-index
S&P/NZX 50 Portfolio Index Gross with Imputation	www.us.spindices.com/indices/equity/sp-nzx-50-portfolio-index
S&P/ASX Accumulation 200 Index	www.us.spindices.com/indices/equity/sp-asx-200
S&P/NZX All Real Estate Industry Group Gross with Imputation	www.nzx.com/markets/nzxx/sectors/NZRE
FTSE EPRA/NAREIT Developed Total return Index USD	www.ftse.com/products/indices/epra-nareit
MSCI All Countries World Daily TR Net Local currency	www.msci.com/acwi
Bloomberg Commodity Index Total Return	www.bloombergindices.com/bloomberg-commodity-index-family/

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