

For the quarter ended 31 December 2017

NZ Funds KiwiSaver Scheme Inflation Strategy

This fund update was first made publicly available on 13 February 2018

What is the purpose of this update?

This document tells you how the Inflation Strategy has performed and what fees were charged. The document will help you to compare the fund with other funds. New Zealand Funds Management Limited prepared this update in accordance with the Financial Markets Conduct Act 2013. This information is not audited and may be updated.

Description of this fund

The objective of the Inflation Strategy is to mitigate the impact of inflation on your investment over the medium and/or long term by investing in income and growth assets using an active management approach. It is anticipated that the fund will mainly hold inflation-sensitive assets including cash and cash equivalents, Australasian and international bonds, and Australasian and international shares. It may also invest in other permitted assets.

Total value of the fund \$76,132,854

Number of investors in the fund 7,496

The date the fund started 1 November 2010

What are the risks of investing?

Risk indicator for the Inflation Strategy:



The risk indicator is rated from 1 (low) to 7 (high). The rating reflects how much the value of the fund's assets goes up and down. A higher risk generally means higher potential returns over time, but more ups and downs along the way.

To help you clarify your own attitude to risk, you can seek financial advice or work out your risk profile at www.nzfunds.co.nz/AdviceSolutions/RiskProfile/

Note that even the lowest category does not mean a risk-free investment, and there are other risks that are not captured by this rating.

The risk indicator is not a guarantee of a fund's future performance. The risk indicator is based on the returns data for the five years to 31 December 2017. While risk indicators are usually relatively stable, they do shift from time to time. The risk indicator will continue to be updated in future fund updates.

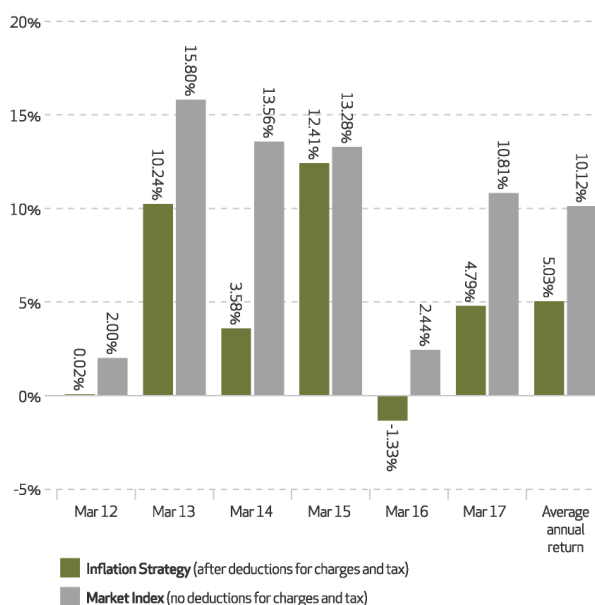
See the Product Disclosure Statement (PDS) for more information about the risks associated with investing in this fund.

How has the fund performed?

	Average over past 5 years	Past year
Annual return (after deductions for charges and tax)	5.56%	8.39%
Annual return (after deductions for charges but before tax)	5.65%	8.29%
Market index annual return (reflects no deduction for charges and tax)	11.40%	14.73%

The market index annual return is based on a composite index calculated using the market indices and weightings set out in the Statement of Investment Policy and Objectives (SIPO). Additional information about the market index is available on the offer register at www.companiesoffice.govt.nz/disclose.

Annual return graph¹



This shows the return after fund charges and tax for each year ending 31 March since the fund started. The last bar shows the average annual return since the fund started, up to 31 December 2017.

Important: This does not tell you how the fund will perform in the future.

Returns in this update are after tax at the highest prescribed investor rate (PIR) of tax for an individual New Zealand resident. Your tax may be lower.

What fees are investors charged?

Investors in the Inflation Strategy are charged fund charges. In the year to 31 March 2017 these were:

	% of net asset value
Total fund charges	1.36%
Which are made up of:	
Total management and administration charges	1.36%
Including:	
Manager's basic fee	1.15%
Other management and administration charges*	0.21% (estimate) ²
Total performance-based fees	n/a
Other charges	\$ amount per investor
Administration fee ³	\$36

*Note: Included within 'Other management and administration charges' are performance-based fees charged by external managers of underlying funds that the fund invested into which totalled 0.02%. Performance-based fees are subject to market movements and external manager performance and the amount of these fees for any given period may materially differ from those disclosed for the year to 31 March 2017. For the 12 months to 31 December 2017, external manager performance fees totalled 0.13%. As a result, 'Total fund charges' for that period totalled 1.47%.

Investors may also be charged individual action fees for specific actions or decisions (for example, for withdrawing from or switching funds). See the PDS for the NZ Funds KiwiSaver Scheme for more information about those fees.

Small differences in fees and charges can have a big impact on your investment over the long term.

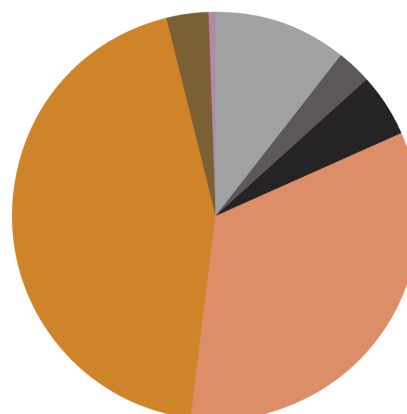
Example of how this applies to an investor

Liam had \$10,000 in the fund at the start of the year and did not make any further contributions. At the end of the year, Liam received a return after fund charges were deducted of \$839 (that's 8.39% of his initial \$10,000). Liam also paid \$36 in other charges. This gives Liam a total return after tax of \$803 for the year.

What does the fund invest in?

This shows the types of assets that the fund invests in.

Actual investment mix



Cash and cash equivalents	10.61%
New Zealand fixed interest	2.84%
International fixed interest	4.95%
Australasian equities	33.70%
International equities	44.13%
Listed property	3.34%
Other*	0.43%

Target investment mix⁴

Cash and cash equivalents	10%
New Zealand fixed interest	3%
International fixed interest	5%
Australasian equities	34%
International equities	44%
Listed property	3%
Unlisted property	0%
Commodities	0%
Other*	1%

*'Other' comprises alternative securities (investment in total return and/or downside-orientated hedge funds)

What does the fund invest in? (continued)

Top 10 investments

	Name	Percentage of fund net assets	Type	Country	Credit Rating
1	Westpac 32 day term deposit	19.30%	Cash and cash equivalents	New Zealand	A-1+
2	Rio Tinto PLC ADR	4.73%	International equities	United States of America	
3	Chorus	4.65%	Australasian equities	New Zealand	
4	MFA Financial	3.34%	Listed property	United States of America	
5	Citibank Hong Kong USD current account	3.01%	Cash and cash equivalents	United States of America	A-1
6	Metlifecare	2.93%	Australasian equities	New Zealand	
7	Meridian Energy	2.93%	Australasian equities	New Zealand	
8	Precinct Properties New Zealand 4.8% 27/09/2021	2.84%	New Zealand fixed interest	New Zealand	
9	Impala Resource Fund	2.74%	International equities	Cayman Islands	
10	Banco Santander 6.25%	2.58%	International equities	Spain	Ba1

The top 10 investments make up 49.05% of the fund.⁵

NZ Funds actively manages the foreign currency exposure of the fund. Where the fund holds assets denominated in a foreign currency, NZ Funds has the choice of whether to hedge back to the NZ dollar or retain a foreign currency exposure. The fund may also take active foreign currency positions by holding non-NZD cash and/or foreign currency derivatives. As at 31 December 2017, the fund's foreign currency exposure was 16.88%.

Key personnel

This shows the directors and employees who have the most impact on the investment decisions of the fund.

Name	Current position	Time in current position	Previous or other position	Time in previous or other position
Richard James	Chief Executive, Chair of the Investment Committee and a Director	8 years 10 months	Chief Operating Officer, New Zealand Funds Management Limited	6 years 1 month
Michael Lang	Chief Investment Officer and a Director	9 years 4 months	Partner, Eclectica Asset Management	1 years 8 months
David Wilson	Investment Strategist and a Principal	21 years	Chief Economist, JB Were	3 years 5 months
James Grigor	Senior Portfolio Manager	0 years 8 months	Head of Portfolio Strategy Group, Macquarie Private Wealth (now Hobson Wealth Partners)	2 years 4 months
Mark Brooks	Head of Income and a Principal	10 years 1 month	Senior Portfolio Manager, Credaris	3 years 4 months

Further information

You can also obtain this information, the PDS for the NZ Funds KiwiSaver Scheme, and some additional information from the offer register at www.companiesoffice.govt.nz/disclose/.

Notes

1. The bar graph shows fund returns after the deduction of fees and tax; however, the market index returns are shown before any fees or tax are deducted.
2. Other management and administration charges comprise:
 - (a) operating costs directly incurred by the fund; and
 - (b) annual management fees, performance-based fees and operating costs incurred by underlying funds the fund invests into.

Estimates were used when deriving annual management fees, performance-based fees and operating costs incurred by the following underlying funds the fund invested into.

Fund	Information and assumptions used to make estimates
True Partner Fund	The fee and operating cost amount obtained from the manager of the True Partner Fund was for the year to 31 December 2016. Performance fee amounts are estimated using the same criteria used by the manager of the True Partner Fund.
Paulson International Fund	The fee and operating cost amount obtained from the administrator of the Paulson International Fund was for the period to 30 November 2016.
Impala Resource Fund	Fee and operating cost amounts are estimated using fee targets provided by the manager of the Impala Resource Fund.

3. The NZ Funds KiwiSaver Scheme has an administration fee of \$3.00 per investor per month.
4. The fund is able to invest in a wide range of assets and does not have a target investment mix. For the purposes of this update, the target investment mix has been compiled using the actual investment mix. NZ Funds is an active investment manager and as a result the actual investment mix and target investment mix will change in the future and changes may be material.
5. The top 10 investments have been compiled using a balance sheet approach. This differs from the approach used in compiling the actual and target investment mixes, which include the impact of derivatives.

Manager

New Zealand Funds Management Limited
Level 16, Zurich House
21 Queen Street
Private Bag 92163
Auckland 1142
Attention: Head of Client Services
Phone 09 377 2277 or 0508 733 337
info@nzfunds.co.nz

Administration Manager

Link Market Services
Level 11, Deloitte Centre
80 Queen Street
PO Box 92050
Auckland 1142
Phone 0800 693 5494
NZFKiwi@linkmarketservices.com