

Investment update

For the quarter ended 31 December 2019

NZ Funds KiwiSaver Scheme LifeCycle - age 75

This fund update was first made publicly available on 13 February 2020

What is the purpose of this update?

This document tells you how the LifeCycle - age 75 investment option has performed and what fees were charged. The document will help you to compare the investment option with other investment options. 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 investment option

The objective of LifeCycle is to allocate your investment across the three funds (Strategies) in the Scheme based on your age to ensure your investment is allocated in a manner consistent with your investment timeframe. At age 75, your investment will be allocated as follows: 35% to the Income Strategy; 34% to the Inflation Strategy; and 31% to the Growth Strategy.

| | |
|---|-----------------|
| Total value of the investment option ¹ | \$457,433 |
| Number of investors in the investment option ¹ | 15 |
| The date the investment option started | 1 November 2010 |

What are the risks of investing?

Risk indicator for the LifeCycle - age 75:



The risk indicator is rated from 1 (low) to 7 (high). The rating reflects how much the value of the investment option'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 an investment option's future performance. The risk indicator is based on the returns data for the five years to 31 December 2019. While risk indicators are usually relatively stable, they do shift from time to time. The risk indicator will continue to be updated in future investment updates.

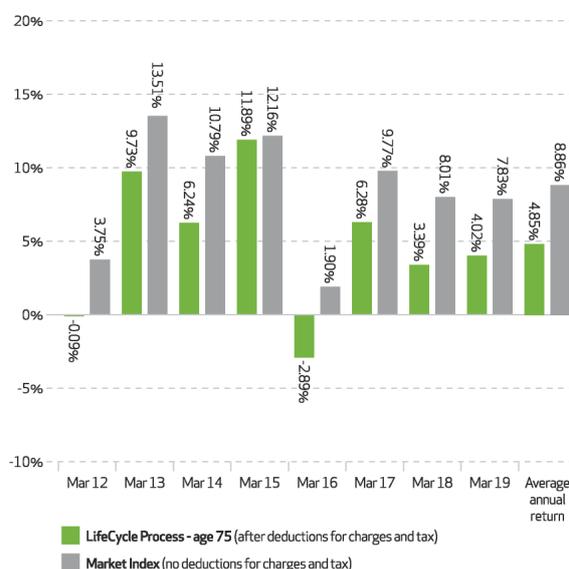
See the Product Disclosure Statement (PDS) for more information about the risks associated with investing in this investment option.

How has the investment option performed?

| | Average over past 5 years | Past year |
|--|---------------------------|-----------|
| Annual return (after deductions for charges and tax) | 3.90% | 11.77% |
| Annual return (after deductions for charges but before tax) | 4.82% | 14.55% |
| Market index annual return (reflects no deduction for charges and tax) | 8.25% | 17.86% |

The market index annual return is based on a composite index calculated using the market indices for each Strategy weighted to reflect the investment option's allocation to each Strategy, as set out in the Statement of Investment Policy and Objectives. Additional information about the market index is available on the offer register at www.companiesoffice.govt.nz/disclose.

Annual return graph²



This shows the return after fund charges and tax for each year ending 31 March since the investment option started. The last bar shows the average annual return since the investment option started, up to 31 December 2019.

Important: This does not tell you how the investment option 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 LifeCycle - age 75 are charged fund charges. In the year to 31 March 2019 these were:

| | % of net asset value |
|--|----------------------------------|
| Total fund charges | 1.32% |
| Which are made up of: | |
| Total management and administration charges | 1.32% |
| Including: | |
| Manager's basic fee | 1.13% |
| Other management and administration charges* | 0.19% (estimate) ³ |
| Total performance-based fees | n/a [†] |
| Other charges | \$ amount per investor |
| Administration fee ⁴ | \$36 |

*Note: Included within 'Other management and administration charges' are performance-based fees charged by external managers of underlying funds that the investment option invested into which totalled -0.01%.⁵ Performance-based fees are subject to market movements and manager performance and the amount of these fees for any given period may materially differ from those disclosed for the year to 31 March 2019.

[†]From 1 April 2019, a performance-based fee may be charged in a related underlying fund. For more information, see the PDS.

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.

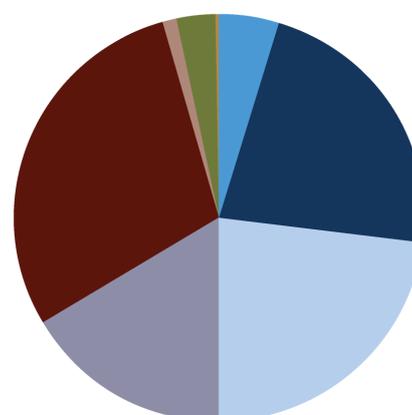
Example of how this applies to an investor

Liam had \$10,000 in the investment option 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 \$1,177 (that's 11.77% of his initial \$10,000). Liam also paid \$36 in other charges. This gives Liam a total return after tax of \$1,141 for the year.

What does the investment option invest in?

This shows the types of assets that the investment option invests in.

Actual investment mix⁶



| | |
|------------------------------|--------|
| Cash and cash equivalents | 4.85% |
| New Zealand fixed interest | 22.37% |
| International fixed interest | 22.84% |
| Australasian equities | 16.50% |
| International equities | 29.21% |
| Listed property | 1.04% |
| Commodities | 3.00% |
| Other* | 0.19% |

Target investment mix⁷

| | |
|------------------------------|-----|
| Cash and cash equivalents | 3% |
| New Zealand fixed interest | 18% |
| International fixed interest | 24% |
| Australasian equities | 18% |
| International equities | 33% |
| 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 investment option invest in? (continued)

Top 10 investments

| | Name | Percentage of investment option net assets | Type | Country | Credit Rating |
|----|---|--|------------------------------|--------------------------|---------------|
| 1 | BNZ bank bill 29/06/2020 | 7.83% | New Zealand fixed interest | New Zealand | A-1+ |
| 2 | Westpac 32 day term deposit | 6.26% | Cash and cash equivalents | New Zealand | A-1+ |
| 3 | Westpac current account | 4.55% | Cash and cash equivalents | New Zealand | A-1+ |
| 4 | Suvretta Offshore Fund | 3.04% | International equities | Cayman Islands | |
| 5 | Goldman Sachs NZD margin account | 2.67% | Cash and cash equivalents | United Kingdom | A-1 |
| 6 | Emerson Point Capital Partners LP | 1.96% | International equities | United States of America | |
| 7 | Vector Ltd 4.996% 14/03/2024 | 1.84% | New Zealand fixed interest | New Zealand | Not rated |
| 8 | National Australia Bank Income Securities perpetual | 1.63% | International fixed interest | Australia | BBB- |
| 9 | Westpac term deposit | 1.57% | New Zealand fixed interest | New Zealand | A-1+ |
| 10 | Meridian Energy | 1.47% | Australasian equities | New Zealand | |

The top 10 investments make up 32.82% of the investment option.⁸

NZ Funds actively manages the foreign currency exposure of the investment option. Where the investment option 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 investment option may also take active foreign currency positions by holding non-NZD cash and/or foreign currency derivatives. As at 31 December 2019, the investment option's foreign currency exposure was 6.05%.

Key personnel

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

| Name | Current position | Time in current position | Previous or other position | Time in previous or other position |
|--------------|---|--------------------------|--|------------------------------------|
| Michael Lang | Chief Executive and a Director | 1 year 3 months | Chief Investment Officer, New Zealand Funds Management Limited | 10 years 1 month |
| James Grigor | Chief Investment Officer and a Principal | 1 year 1 month | Senior Portfolio Manager, New Zealand Funds Management Limited | 1 year 7 months |
| David Wilson | Chief Operating Officer - Investments and a Principal | 1 year 1 month | Investment Strategist, New Zealand Funds Management Limited | 21 years 11 months |
| Mark Brooks | Head of Income and a Principal | 12 years 1 month | Senior Portfolio Manager, Credaris | 3 years 4 months |
| David Haslam | Senior Dealer | 3 years | Equities Trader, UBS NZ | 0 years 11 months |

Notes

1. The total value and number of investors in the NZ Funds Kiwisaver Scheme Lifecycle overall is \$256,158,865 and 7,944 respectively.
2. The bar graph shows investment option returns after the deduction of fees and tax; however, the market index returns are shown before any fees or tax are deducted.
3. Other management and administration charges comprise:
 - (a) operating costs directly incurred by the investment option; and
 - (b) annual management fees, performance-based fees and operating costs incurred by underlying funds the investment option 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 |
|------------------------|---|
| Suvretta Offshore Fund | The fee and operating cost amount obtained from the manager of the fund was for the year to 31 December 2018. Performance fee amounts are estimated using the same criteria used by the administrator of the fund. |
| Impala Resource Fund | Fee and operating cost amounts are estimated using fee targets provided by the manager of the fund for the year to 31 December 2018. Performance fee amounts are estimated using the same criteria used by the administrator of the fund. |

4. The NZ Funds KiwiSaver Scheme has an administration fee of \$3.00 per investor per month.
5. In the 12 month period to 31 March 2019, there was a reversal of external manager performance fees that had been accrued in the previous year.
6. NZ Funds uses derivatives as part of its active management approach. The use of derivatives can result in the total economic exposure of the investment option exceeding 100% which means the investment option is leveraged. Where economic exposure exceeds 100%, the actual investment mix pie graph has been scaled to 100%. Without scaling, the total economic exposure of the investment option, as shown in the actual investment mix, would be 108.71%. For more information on economic exposure, see the Other Material Information document on the offer register at www.companiesoffice.govt.nz/disclose.
7. Targets indicate what are expected to apply over the course of an economic cycle and should be considered as general guidance only. NZ Funds is an active manager and may use investment strategies that differ materially from the targets.
8. 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

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