



## **US LARGE VALUE FUND**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2017**

**Presented by Smartshares Limited, Manager of the US Large Value Fund**

# US LARGE VALUE FUND

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## US LARGE VALUE FUND

### DIRECTORY

#### THE MANAGER

Smartshares Limited  
Level 1, NZX Centre  
11 Cable Street, Wellington 6140  
New Zealand

This is also the address of the registered office.

#### PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House  
21 Queen Street, Auckland Central  
Auckland 1010  
New Zealand

#### DIRECTORS OF THE MANAGER

Bevan K. Miller  
Timothy O. Bennett (resigned 30 December 2016)  
Guy R. Elliffe  
A. John Williams  
Paul J. Baldwin (appointed 30 December 2016)

#### INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

#### THE SUPERVISOR

Public Trust  
Level 5, 40-42 Queens Drive  
Lower Hutt 5010, Wellington  
New Zealand

#### AUDITOR

KPMG  
10 Customhouse Quay  
PO Box 996, Wellington 6140  
New Zealand

#### SOLICITOR

Buddle Findlay  
Level 17, State Insurance Tower  
1 Willis Street, Wellington 6140  
New Zealand

#### REGISTRAR

Link Market Services Limited

### CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

## US LARGE VALUE FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). Under a Deed of Retirement and Appointment dated 6 September 2016, Trustees Executors Limited retired as the trustee and Public Trust was appointed as the Supervisor. The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The US Large Value Fund (the 'Fund') was created by an establishment deed dated 10 July 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

### STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2017, and the results of its financial performance and cash flows for the year ended 31 March 2017 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:  
Smartshares Limited



.....  
Director



.....  
Director

This statement was approved for signing at a meeting of the Directors on 25 May 2017.

## US LARGE VALUE FUND

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

	Note	Year Ended 31 March 2017 \$'000	Period Ended 31 March 2016 \$'000
<b>INCOME</b>			
Dividend income		855	643
Net changes in fair value of financial assets at fair value through profit or loss		4,670	(1,626)
Foreign exchange gain		<u>-</u>	<u>17</u>
<b>Total income</b>		<b><u>5,525</u></b>	<b><u>(966)</u></b>
<b>EXPENSES</b>			
Management fees expense	7	(149)	(97)
Foreign exchange loss		<u>(5)</u>	<u>-</u>
<b>Total expenses</b>		<b><u>(154)</u></b>	<b><u>(97)</u></b>
<b>Profit/(loss) before tax</b>		<b>5,371</b>	<b>(1,063)</b>
Income tax expense	1	<u>(418)</u>	<u>(278)</u>
<b>Profit/(loss) after tax</b>		<b>4,953</b>	<b>(1,341)</b>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income/(loss)</b>		<b><u>4,953</u></b>	<b><u>(1,341)</u></b>
<b>EARNINGS PER UNIT</b>			
<b>Basic and diluted earnings/(losses) per unit (cents per unit)</b>	4	<b><u>37.75</u></b>	<b><u>(10.26)</u></b>

*The accompanying notes form part of and should be read in conjunction with these financial statements.*

## US LARGE VALUE FUND

### STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2017

		Year Ended 31 March 2017 \$'000	Period Ended 31 March 2016 \$'000
<b>Unitholders' funds at the beginning of the year/period</b>		31,111	-
<b>Total comprehensive income/(loss) for the year/period</b>		<u>4,953</u>	<u>(1,341)</u>
Subscriptions from unitholders	6	551	33,814
Redemptions by unitholders	6	-	(1,183)
Distributions to unitholders	5	<u>(301)</u>	<u>(179)</u>
		<u>250</u>	<u>32,452</u>
<b>Unitholders' funds at the end of the year/period</b>		<u><u>36,314</u></u>	<u><u>31,111</u></u>

*The accompanying notes form part of and should be read in conjunction with these financial statements.*

# US LARGE VALUE FUND

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

	Note	As At 31 March 2017 \$'000	As At 31 March 2016 \$'000
<b>ASSETS</b>			
Cash and cash equivalents		380	397
Investments in equity securities held at fair value through profit or loss	2	<u>36,111</u>	<u>30,922</u>
<b>TOTAL ASSETS</b>		<b><u>36,491</u></b>	<b><u>31,319</u></b>
<b>LIABILITIES</b>			
Management fees payable	7	(1)	(12)
Taxation payable		(102)	(53)
Funds held for unit purchases		(19)	(60)
Unsettled trades		<u>(55)</u>	<u>(83)</u>
<b>TOTAL LIABILITIES</b>		<b><u>(177)</u></b>	<b><u>(208)</u></b>
<b>UNITHOLDERS' FUNDS</b>		<b><u>36,314</u></b>	<b><u>31,111</u></b>
<b>TOTAL LIABILITIES AND UNITHOLDERS' FUNDS</b>		<b><u>36,491</u></b>	<b><u>31,319</u></b>

For and on behalf of the Manager, Smartshares Limited, who authorised the issue of the financial statements on 25 May 2017.



-----  
B Miller  
Chairman  
Smartshares Limited



-----  
G Elliffe  
Director  
Smartshares Limited

*The accompanying notes form part of and should be read in conjunction with these financial statements.*

## US LARGE VALUE FUND

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

	Year Ended 31 March 2017 \$'000	Period Ended 31 March 2016 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Cash was provided from:</i>		
Dividend income received	727	547
<i>Cash was applied to:</i>		
Management fees paid	(160)	(85)
Taxation paid	<u>(241)</u>	<u>(129)</u>
<b>Net cash flows from operating activities</b>	<b><u>326</u></b>	<b><u>333</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<i>Cash was applied to:</i>		
Purchase of investments	<u>(372)</u>	<u>(101)</u>
<b>Net cash flows from investing activities</b>	<b><u>(372)</u></b>	<b><u>(101)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<i>Cash was provided from:</i>		
Subscriptions received from unitholders	330	349
<i>Cash was applied to:</i>		
Redemptions paid to unitholders	-	(5)
Distributions paid to unitholders	<u>(301)</u>	<u>(179)</u>
<b>Net cash flows from financing activities</b>	<b><u>29</u></b>	<b><u>165</u></b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(17)</b>	<b>397</b>
Cash and cash equivalents at the beginning of the year/period	<u>397</u>	<u>-</u>
<b>Cash and cash equivalents at the end of the year/period</b>	<b><u>380</u></b>	<b><u>397</u></b>
<b>Reconciliation of profit/(loss) after tax to net cash flows from operating activities</b>		
Profit/(loss) after tax	4,953	(1,341)
Net changes in fair value of financial assets at fair value through profit or loss	(4,670)	1,626
Foreign exchange loss/(gain)	5	(17)
Increase in taxation payable	49	53
(Decrease)/increase in management fees payable	<u>(11)</u>	<u>12</u>
<b>Net cash flows from operating activities</b>	<b><u>326</u></b>	<b><u>333</u></b>

*The accompanying notes form part of and should be read in conjunction with these financial statements.*



# US LARGE VALUE FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

### GENERAL INFORMATION

The US Large Value Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purposes of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 10 July 2015 and commenced operation on 29 July 2015.

The Fund changed its name from US Large Value Trust to US Large Value Fund effective 16 September 2016.

The Fund's units are quoted on the NZX Main Board. The Fund is a passive investment fund that invests in Vanguard Value ETF (the 'Underlying Fund'), which tracks the CRSP US Large Cap Value Index (the 'Underlying Index'). The Underlying Fund invests in securities contained in the Underlying Index broadly in proportion to the weightings of the Underlying Index. Investments are valued at fair value according to last traded market prices on the New York Stock Exchange Arca on 31 March 2017 (see Note 2).

### STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the year/period presented.

#### Comparative period and amounts

These financial statements are for the year ended 31 March 2017. The comparative figures are for the period 29 July 2015 to 31 March 2016. Where necessary, comparative figures have been restated to correspond to the current year classifications.

#### Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's Statement of Accounting Policies.

#### Financial assets at fair value through profit or loss

##### (a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Smartshares Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

##### (b) Recognition/derecognition

Purchases and sales of investments are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

##### (c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

##### (d) Fair value estimation

The fair value of the financial instruments is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded market price.

# US LARGE VALUE FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

### Receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Receivables are measured at amortised cost using the effective interest method less impairment.

### Payables

Trade payables and other payables are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services, and are measured at amortised cost.

### Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Translation differences of non-monetary financial assets such as equities held at fair value through profit or loss are recognised in the Statement of Comprehensive Income as part of the net changes in fair value of financial assets at fair value through profit or loss.

### Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities are those activities that relate to cash contributions to and from, or distributions to the unitholders.

### Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, for units in the Underlying Fund and a proportion of cash held in the Fund.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net asset attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

### Dividend income

Dividend income is recognised when the right to receive payment is established.

### Distributions to unitholders

Distributions are made up of income received from the investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record date for the Fund is on the last business day of May and November in each year. Currently distributions to unitholders are made on a semi-annual basis directly from the Fund within 20 business days of the record date.

### Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on investments in securities subject to the Fair Dividend Rate method ('FDR') listed in Note 2 after the deduction of management fees. FDR income is based on the market value of the security. With some of this income, the Fund is able to utilise foreign withholding tax credits to satisfy the tax liability. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the Statement of Financial Position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

### Goods and services tax (GST)

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

# US LARGE VALUE FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

### Segment information

The Fund operates solely in the business of investment management, investing in the Underlying Fund - Vanguard Value ETF. The Fund receives all of its dividend income from this investment.

### Changes in accounting policies and accounting standards adopted during the year

#### (a) Changes in accounting policies

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior period.

#### (b) New accounting standards adopted

There were no new accounting standards adopted during the year that have a material impact on the financial statements of the Fund.

### Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2017, and have not been applied in preparing the financial statements. The Fund does not plan to adopt these standards early. The standards which are relevant to the Fund are as follows:

- NZ IFRS 9 Financial Instruments - Effective for annual reporting periods beginning on or after 1 January 2018; the impact of any changes has not yet been determined.
- NZ IFRS 15 Revenue from Contracts with Customers - Effective for annual reporting periods beginning on or after 1 January 2018. The impact of any changes has not yet been determined.

# US LARGE VALUE FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

### 1. TAXATION

	2017	2016
	\$'000	\$'000
<b>Tax expense comprises:</b>		
Current tax expense	<u>(418)</u>	<u>(278)</u>
<b>Total tax expense</b>	<b><u>(418)</u></b>	<b><u>(278)</u></b>

The prima facie income tax expense on profit/(loss) before tax from operations reconciles to the income tax expense in the financial statements as follows:

	2017	2016
	\$'000	\$'000
<b>Income tax expense</b>		
Profit/(loss) before tax	<u>5,371</u>	<u>(1,063)</u>
<b>Income tax using the statutory income tax rate 28%</b>	<b><u>(1,504)</u></b>	<b><u>298</u></b>
Net changes in fair value of financial assets	1,308	(455)
Non taxable income	238	180
Tax on securities subject to FDR	<u>(460)</u>	<u>(301)</u>
	<b><u>(418)</u></b>	<b><u>(278)</u></b>
<b>Income tax expense as per Statement of Comprehensive Income</b>	<b><u>(418)</u></b>	<b><u>(278)</u></b>

	2017	2016
	\$'000	\$'000
<b>Imputation credit account (ICA)</b>		
Imputation credits available for use in subsequent periods	285	112

### 2. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017		2016	
	Number of units '000	Fair value \$'000	Number of units '000	Fair value \$'000
<b>Underlying fund</b>				
Vanguard Value Fund	265	<u>36,111</u>	261	<u>30,922</u>
		<b><u>36,111</u></b>		<b><u>30,922</u></b>

All investments are designated at inception as being at fair value through profit or loss. The fair values of investments are calculated using the last traded market price on the reporting date. The investments are registered in the name of BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch, the custodian of the Fund.

# US LARGE VALUE FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

### 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value can be categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

All financial instruments of the Fund measured at fair value have been categorised as level 1 in the hierarchy. There were no transfers between levels in the year ended 31 March 2017 (31 March 2016: none).

### 4. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

	2017	2016
Profit/(loss) after tax (\$'000)	4,953	(1,341)
Weighted average number of units ('000)	13,119	13,072
<b>Basic and diluted earnings/(losses) per unit (cents per unit)</b>	<b>37.75</b>	<b>(10.26)</b>

### 5. DISTRIBUTION PAYABLE TO UNITHOLDERS

	2017	2016
	\$'000	\$'000
Opening distribution payable	-	-
Distributions accrued to unitholders	301	179
Distributed to unitholders	(301)	(179)
<b>Closing distribution payable</b>	<b>-</b>	<b>-</b>

#### Distributions declared and paid

		Distribution per unit		
	Year Ended	(cents per unit)	2017	2016
			\$'000	\$'000
October 2015 (paid November 2015)	31/03/2016	1.38	-	179
April 2016 (paid May 2016)	31/03/2017	0.86	112	-
November 2016 (paid December 2016)	31/03/2017	1.44	189	-
			<b>301</b>	<b>179</b>

# US LARGE VALUE FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

### 6. UNITHOLDERS' FUNDS

As at 31 March 2017 there were 13,215,000 units on issue (31 March 2016: 12,994,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to unitholders are represented by these units. The relevant movements are shown in the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2017 was 221,000 (31 March 2016: 13,472,000) for total value of \$551,000 (31 March 2016: \$33,814,000).

The number of units redeemed during the year ended 31 March 2017 was nil (31 March 2016: 478,000) for total value of \$nil (31 March 2016: \$1,183,000).

	2017 '000	2016 '000
<b>Movement in the number of units</b>		
Balance at the beginning of the year/period	12,994	-
Subscriptions received during the year/period	221	13,472
Redemptions made during the year/period	-	(478)
<b>Units on issue at the end of the year/period</b>	<u><u>13,215</u></u>	<u><u>12,994</u></u>

The net asset value of each unit per the financial statements is \$2.74794 (31 March 2016: \$2.39426). Any difference between the net asset value announced to the market for 31 March 2017 and the net asset value per the financial statements is due to different unit pricing methodology.

### 7. RELATED PARTY TRANSACTIONS

#### Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the year.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife superannuation scheme ("SLSS"), a scheme managed by SuperLife Limited, a wholly owned subsidiary of NZX Limited, was an investor in the Fund in this year between 1 April 2016 and 27 October 2016. Effective 28 October 2016, the investments were transferred from SLSS to SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, also a wholly owned subsidiary of NZX Limited. The transfer of assets and change of Manager was completed as part of the transition of the SuperLife scheme to the Financial Markets Conduct Act 2013.

As at 31 March 2017, SLI held 12,917,842 units valued at \$35,415,000 in the Fund. As at 31 March 2016, SLSS held 12,914,102 units valued at \$30,975,000 in the Fund.

#### Distributions

The Fund paid distributions of \$111,000 (31 March 2016: \$178,000) to SLSS. All distributions were settled prior to the transfer of investments from SLSS to SLI. The balance remaining as payable as at 31 March 2016 was \$nil. The Fund paid distributions of \$186,000 to SLI for the year ended 31 March 2017 (31 March 2016: not applicable). The balance remaining as payable at the end of the year is \$nil (31 March 2016: not applicable).

#### Management fees

The Manager receives management fees from the Fund. Under the Trust Deed the Manager pays the supervisor, custodian, registrar and auditor on behalf of the Fund and receives direct purchase application fees and all interest earned on cash at banks.

Total gross management fees excluding rebates for the year ended 31 March 2017 amounted to \$149,000 (31 March 2016: \$97,000), with \$1,000 (31 March 2016: \$12,000) of outstanding accrued management fees due to the Manager at the end of the year.

The total interest earned on cash at banks for the year ended 31 March 2017 amounted to \$4,000 (31 March 2016: \$2,000).

The total direct purchase application fees for the year ended 31 March 2017 amounted to \$1,000 (31 March 2016: \$1,000).

# US LARGE VALUE FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

### 7. RELATED PARTY TRANSACTIONS (Continued)

#### Other related party transactions

The audit fee paid by the Manager for the audit of the Fund at the year ended 31 March 2017 was \$5,000 (31 March 2016: \$6,000).

### 8. FINANCIAL RISK MANAGEMENT

#### Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The financial instruments not accounted for at fair value through profit and loss are short-term financial assets and financial liabilities whose carrying amounts approximate fair value.

Financial instruments by category	2017 \$'000	2016 \$'000
<i>Loans and receivables</i>		
Cash and cash equivalents	380	397
<i>Financial assets at fair value through profit and loss</i>		
Investments in equity securities held at fair value through profit or loss	36,111	30,922
<i>Other financial liabilities</i>		
Management fees payable	(1)	(12)
Funds held for unit purchases	(19)	(60)
Unsettled trades	(55)	(83)

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

#### 8a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

The Fund's market price risk is affected by actual changes in market prices. As the Fund invests in an Underlying Fund which tracks an Underlying Index, any change in the Underlying Index will result in a corresponding change in the assets at fair value through profit or loss.

A 10% increase/decrease in equity prices as at 31 March 2017 would have increased/decreased net profit and unitholder funds by \$3,611,000 (31 March 2016: \$3,092,000).

#### 8b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value. The risk of non-recovery of monetary assets is considered very low due to the quality of counterparties dealt with.

## US LARGE VALUE FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

#### 8. FINANCIAL RISK MANAGEMENT (Continued)

The Fund does not require collateral or other security to support financial instruments with credit risk. The maximum exposures to credit risk at the reporting date are:

	2017 \$'000	2016 \$'000
Cash and cash equivalents	380	397

#### *Cash and cash equivalents*

The Fund's cash and cash equivalents balances are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance with each bank above at the reporting date.

	Balance	2017 Credit rating	Balance	2016 Credit rating
	\$'000		\$'000	
ANZ	19	AA-	60	AA-
BNP Paribas	-	A	-	A-
Westpac	361	AA-	337	AA-
	380		397	

#### 8c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund's investment in the Vanguard Value ETF is considered readily realisable, as it is quoted on the New York Stock Exchange Arca. In addition, liquidity risk associated with redemptions is managed by meeting redemptions in the form of baskets rather than cash. The Fund meets its redemption obligations by returning units in the Underlying Fund. Liquidity risk for the Fund is therefore low.

#### 8d. Currency risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in US dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

A 10% strengthening/weakening of the New Zealand dollar against the US dollar as at 31 March 2017 would have decreased/increased profits and unitholders funds by \$3,606,000 (31 March 2016: \$3,084,000).

The table below summarises the Fund's exposure to currency risks.

	2017 \$'000	2016 \$'000
Investments in equity securities held at fair value through profit or loss	36,111	30,922
Unsettled trades	(55)	(83)

#### 9. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2017 (31 March 2016: none).

#### 10. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2017 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.





# Independent Auditor's Report

To the unitholders of US Large Value Fund

## Report on the financial statements

### Opinion

In our opinion, the accompanying financial statements of US Large Value Fund (the fund) on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2017;
- the statement of comprehensive income, statement of changes in unitholders' funds and statement of cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund 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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report.

Our firm has also provided other assurance services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



### Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$365,000 determined with reference to a benchmark of the fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

# US LARGE VALUE FUND



## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the members as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

### The key audit matter

### How the matter was addressed in our audit

#### Carrying amount of investments

Refer to Note 2 to the Financial Statements.

The fund's portfolio of investments makes up 99.0% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2017 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



## Other Information

The Manager, on behalf of the fund, is responsible for the other information included in the entity's Annual Report. Other information may include the Chairman's report, fund highlights, disclosures relating to corporate governance and statutory information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Manager.



## Use of this Independent Auditor's Report

This report is made solely to the members as a body. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in the Independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to

## US LARGE VALUE FUND



anyone other than the members as a body for our audit work, this report, or any of the opinions we have formed.



### Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



### Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

- 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 Independent 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 ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 these financial statements is located at the External Reporting Board (XRB) website at:

[https://www.xrb.govt.nz/Site/Auditing\\_Assurance\\_Standards/Current\\_Standards/Page2.aspx](https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page2.aspx)

This description forms part of our Independent Auditor's Report.

**Brent Manning**

For and on behalf of

KPMG  
Wellington

25 May 2017