



NZ BOND FUND

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Presented by Smartshares Limited, Manager of the NZ Bond Fund

NZ BOND FUND

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NZ BOND 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)

AUDITOR

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

THE SUPERVISOR

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

THE INVESTMENT MANAGER

Nikko Asset Management New Zealand Limited
Level 9, Vero Centre, 48 Shortland Street
Auckland, 1010
New Zealand

SOLICITOR

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

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

CORRESPONDENCE

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

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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 NZ Bond Fund (the 'Fund') was created by an establishment deed dated 15 October 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 drawn up 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.

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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

		Year Ended 31 March 2017 \$'000	Period Ended 31 March 2016 \$'000
	Note		
INCOME			
Dividend income		20	8
Interest income		9,509	3,895
Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss		(2,848)	1,792
Other income		<u>109</u>	<u>54</u>
Total income		<u>6,790</u>	<u>5,749</u>
EXPENSES			
Management fees expense	9	(1,095)	(413)
Other expenses		<u>(1)</u>	<u>-</u>
Total expenses		<u>(1,096)</u>	<u>(413)</u>
Profit before tax		5,694	5,336
Income tax expense	1	<u>(1,588)</u>	<u>(1,492)</u>
Profit after tax		4,106	3,844
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u>4,106</u>	<u>3,844</u>
EARNINGS PER UNIT			
Basic and diluted earnings per unit (cents per unit)	5	<u>6.11</u>	<u>5.81</u>

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

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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
	Note		
Unitholders' funds at the beginning of the year/period		199,510	-
Total comprehensive income for the year/period		<u>4,106</u>	<u>3,844</u>
Subscriptions from unitholders	7	5,110	197,446
Distributions to unitholders	6	<u>(5,839)</u>	<u>(1,780)</u>
		<u>(729)</u>	<u>195,666</u>
Unitholders' funds at the end of the year/period		<u><u>202,887</u></u>	<u><u>199,510</u></u>

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

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STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

		As At 31 March 2017 \$'000	As At 31 March 2016 \$'000
	Note		
ASSETS			
Cash at banks		1,597	2,344
Receivables		6,485	2,266
Investment securities held at fair value through profit or loss	2	199,227	197,306
Equity securities held at fair value through profit or loss	2	-	789
Taxation receivable		121	-
Deferred tax asset	1	-	37
TOTAL ASSETS		<u>207,430</u>	<u>202,742</u>
LIABILITIES			
Management fees payable	9	(9)	(92)
Taxation payable		-	(1,328)
Derivatives held for trading	3	-	(28)
Distribution payable to unitholders	6	(3)	(1,780)
Funds held for unit purchases		(29)	(4)
Unsettled trades		(4,500)	-
Other current liabilities		(2)	-
TOTAL LIABILITIES		<u>(4,543)</u>	<u>(3,232)</u>
UNITHOLDERS' FUNDS		<u>202,887</u>	<u>199,510</u>
TOTAL LIABILITIES AND UNITHOLDERS' FUNDS		<u>207,430</u>	<u>202,742</u>

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.

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

	Year Ended 31 March 2017 \$'000	Period Ended 31 March 2016 \$'000
Note		
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Cash was provided from:</i>		
Dividend income received	20	8
Interest income received	9,691	3,405
Other income received	109	54
<i>Cash was applied to:</i>		
Management fees paid	(1,178)	(322)
Taxation paid	(3,000)	(200)
Other expenses paid	(1)	-
Net cash flows from operating activities	<u>5,641</u>	<u>2,945</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
<i>Cash was provided from:</i>		
Sale of investments	69,005	30,006
Net repayments from the Manager	2	-
<i>Cash was applied to:</i>		
Purchase of investments	(72,914)	(32,439)
Net cash flows from investing activities	<u>(3,907)</u>	<u>(2,433)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>Cash was provided from:</i>		
Subscriptions received from unitholders	5,135	1,832
<i>Cash was applied to:</i>		
Distributions paid to unitholders	(7,616)	-
Net cash flows from financing activities	<u>(2,481)</u>	<u>1,832</u>
Net (decrease)/increase in cash and cash equivalents	(747)	2,344
Cash and cash equivalents at the beginning of the year/period	<u>2,344</u>	<u>-</u>
Cash and cash equivalents at the end of the year/period	<u>1,597</u>	<u>2,344</u>
Reconciliation of profit after tax to net cash flows from operating activities		
Profit after tax	4,106	3,844
Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss	2,848	(1,792)
Increase in taxation receivable	(121)	-
(Decrease)/increase in taxation payable	(1,328)	1,328
Decrease/(increase) in deferred tax asset receivable	37	(37)
(Decrease)/increase in management fees payable	(83)	92
Decrease/(increase) in receivables	182	(490)
Net cash flows from operating activities	<u>5,641</u>	<u>2,945</u>

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

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

GENERAL INFORMATION

The NZ Bond 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 purpose 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 15 October 2015 and commenced operations on 6 November 2015.

The Fund changed its name from New Zealand Bond Trust to NZ Bond Fund effective 16 September 2016.

The Fund's units are quoted on the NZX Main Board. The Fund holds a portfolio of fixed and floating income securities. It is an investment fund that aims to outperform the S&P/NZX A-Grade Corporate Bond Index (the 'Index') over a rolling three year period. As prescribed by the Trust Deed, the Fund can invest in securities of all types represented in the Index and any other investment that is consistent with the objectives of the Fund.

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

These financial statements are for the year ended 31 March 2017. The comparative figures are for the period 6 November 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 and financial liabilities 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.

Income recognition

Income is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

(a) Dividends

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

(b) Interest income

Interest income is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(c) Changes in fair value of financial assets and financial liabilities

Changes in financial assets and financial liabilities at fair value through profit or loss are calculated as the difference between the fair value at sale, or at year/period end, and the fair value at the previous valuation point or cost. This includes both realised and unrealised gains and losses, but does not include dividend and interest income.

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

Financial assets and financial liabilities at fair value through profit or loss

(a) Classification

The Fund classifies its underlying investments and derivatives as financial assets and financial liabilities at fair value through profit or loss. This category has two sub-categories: financial assets or financial liabilities held for trading; and those held at fair value through profit or loss at inception.

(i) Financial assets and financial liabilities held for trading

Financial instruments designated for trading are those acquired or incurred principally for the purposes of selling or repurchasing in the short term. Derivatives are categorised as held for trading. The Fund does not classify any derivatives as hedges in a hedging relationship.

(ii) Financial assets designated at fair value through profit or loss

Financial instruments designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Manager to evaluate the information about these financial instruments on a fair value basis together with other related financial information. The Manager has determined that investments are designated at fair value through profit or loss.

The Fund does not use short sales, but can use these as part of spread trades, hedging transactions or income-enhancing strategies.

(b) Recognition, derecognition and measurement

Purchases and sales of investments (including derivatives) are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Financial assets and financial liabilities designated at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in profit or loss.

Financial assets and financial liabilities 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.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise.

(c) Fair value determination

The fair value of financial assets traded in active markets (such as trading securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets and financial liabilities held by the Fund is the last traded price.

For investments with no active markets, fair values are determined using valuation techniques. Such techniques include: using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgmental inputs to a minimum.

(d) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund and counterparty.

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.

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 cash distributions to the unitholders.

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

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, by delivery to the investor of the cash amount and/or authorised investments that the Manager agrees to accept as consideration for, and determines to have a value equal to the price of the units issued.

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 assets 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.

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 February, May, August and November in each year. Currently, distributions to unitholders are made on a quarterly 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 taxable interest, taxable dividends and gains and losses from its investments in securities outlined in Note 2 after the deduction of management fees and other deductible expenses. With some of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation 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. The temporary differences relate to unrealised gains and losses on equities.

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.

Segment information

The Fund operates solely in the business of investment management, investing in New Zealand marketable and debt securities. The Fund receives all of its income from its investments. There was no individual security that contributed 10% or more of income received for the year ended 31 March 2017 (31 March 2016: none).

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.

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

1. TAXATION

	2017 \$'000	2016 \$'000
Tax expense comprises:		
Current tax expense	(1,551)	(1,529)
Deferred tax movement	<u>(37)</u>	<u>37</u>
Total tax expense	<u>(1,588)</u>	<u>(1,492)</u>

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

	2017 \$'000	2016 \$'000
Income tax expense		
Profit before tax	<u>5,694</u>	<u>5,336</u>
Income tax using the statutory income tax rate 28%	<u>(1,594)</u>	<u>(1,494)</u>
Net changes in fair value of financial assets and financial liabilities	-	-
Non taxable income	-	-
Gross up of imputation credits	<u>(2)</u>	<u>(1)</u>
	<u>(1,596)</u>	<u>(1,495)</u>
Less imputation credits and other tax credits	<u>8</u>	<u>3</u>
Income tax expense as per Statement of Comprehensive Income	<u>(1,588)</u>	<u>(1,492)</u>

	2017 \$'000	2016 \$'000
Deferred tax		
Opening balance	37	-
Current period movement	<u>(37)</u>	<u>37</u>
Closing balance	<u>-</u>	<u>37</u>

	2017 \$'000	2016 \$'000
Imputation credit account (ICA)		
Imputation credits available for use in subsequent periods	738	1,329

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

2. INVESTMENT SECURITIES

	2017 \$'000	2016 \$'000
<i>Financial assets at fair value through profit or loss</i>		
NZ bank bills	507	1,292
NZ government and local government bonds	27,141	26,054
NZ corporate bonds	171,579	169,960
Preference shares	-	789
	199,227	198,095

The Fund's investments are managed by Nikko Asset Management New Zealand Limited and registered in the name of BNP Paribas Fund Services Australasia Pty Limited, New Zealand branch, the custodian of the Fund.

3. DERIVATIVES HELD FOR TRADING

The Fund holds the following derivative financial instrument:

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of financial instrument at a fixed price, either at fixed future date or at any time with a specified date or the current fair value of the instruments.

	2017 \$'000	2016 \$'000
Financial liabilities		
<i>Held for Trading :</i>		
Options	-	(28)
	-	(28)

4. 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.

There were no transfers between levels in the year ended 31 March 2017 (31 March 2016: none).

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

4. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measured is categorised. The amounts are based on the values recognised in the Statement of Financial Position.

	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Financial assets held at fair value through profit or loss</i>								
Investment securities held at fair value through profit or loss	-	199,227	-	199,227	-	197,306	-	197,306
Equity securities held at fair value through profit or loss	-	-	-	-	789	-	-	789
	<u>-</u>	<u>199,227</u>	<u>-</u>	<u>199,227</u>	<u>789</u>	<u>197,306</u>	<u>-</u>	<u>198,095</u>
<i>Derivative assets held for trading:</i>								
<i>Derivative liabilities held for trading:</i>								
Options	-	-	-	-	-	(28)	-	(28)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28)</u>	<u>-</u>	<u>(28)</u>

5. 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 after tax (\$'000)	4,106	3,844
Weighted average number of units ('000)	<u>67,178</u>	<u>66,155</u>
Basic and diluted earnings per unit (cents per unit)	<u>6.11</u>	<u>5.81</u>

6. DISTRIBUTION PAYABLE TO UNITHOLDERS

	2017	2016
	\$'000	\$'000
Opening distribution payable	1,780	-
Distributions accrued to unitholders	5,839	1,780
Distributed to unitholders	<u>(7,616)</u>	<u>-</u>
Closing distribution payable	<u>3</u>	<u>1,780</u>

Distributions declared and paid

	Year ended	Distribution per unit (cents per unit)	2017	2016
			\$'000	\$'000
March 2016 (paid April 2016)	31/03/2016	2.69	-	1,780
June 2016 (paid July 2016)	31/03/2017	1.61	1,076	-
September 2016 (paid October 2016)	31/03/2017	1.97	1,319	-
November 2016 (paid December 2016)	31/03/2017	2.14	1,449	-
February 2017 (paid March 2017)	31/03/2017	2.95	<u>1,995</u>	<u>-</u>
			<u>5,839</u>	<u>1,780</u>

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

7. UNITHOLDERS' FUNDS

As at 31 March 2017 there were 67,934,000 units on issue (31 March 2016: 66,244,000).

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 on the Statement of Changes in Unitholders' Funds.

The number of units allotted during the year ended 31 March 2017 was 1,690,000 (31 March 2016: 66,244,000) for total value of \$5,110,000 (31 March 2016: \$197,446,000).

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

	2017 '000	2016 '000
Movement in the number of units		
Balance at the beginning of the year/period	66,244	-
Subscriptions received during the year/period	1,690	66,244
Units on issue at the end of the year/period	67,934	66,244

The net asset value of each unit per the financial statements is \$2.98653 (31 March 2016: \$3.01174). 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.

8. MATURITY ANALYSIS

The Fund invests in interest bearing assets and other New Zealand bond investments.

The tables below show an analysis of financial assets and financial liabilities analysed according to when they are expected to be recovered or settled.

	2017			2016		
	Within 12 months	Over 12 months	Total	Within 12 months	Over 12 months	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS						
Cash at banks	1,597	-	1,597	2,344	-	2,344
Receivables	6,485	-	6,485	2,266	-	2,266
Investment securities held at fair value through profit or loss	12,366	186,861	199,227	6,520	190,786	197,306
Equity securities held at fair value through profit or loss	-	-	-	-	789	789
Taxation receivable	121	-	121	-	-	-
Deferred tax asset	-	-	-	37	-	37
Total assets	20,569	186,861	207,430	11,167	191,575	202,742
LIABILITIES						
Management fees payable	(9)	-	(9)	(92)	-	(92)
Taxation payable	-	-	-	(1,328)	-	(1,328)
Derivatives held for trading	-	-	-	(28)	-	(28)
Distribution payable to unitholders	(3)	-	(3)	(1,780)	-	(1,780)
Funds held for unit purchases	(29)	-	(29)	(4)	-	(4)
Unsettled trades	(4,500)	-	(4,500)	-	-	-
Other current liabilities	(2)	-	-	-	-	-
Total liabilities	(4,543)	-	(4,541)	(3,232)	-	(3,232)

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

9. 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 65,955,132 units valued at \$196,962,000 in the Fund. As at 31 March 2016, SLSS held 65,943,573 units valued at \$198,410,000 in the Fund.

Distributions

The Fund paid distributions of \$2,360,000 (31 March 2016: \$1,772,000) 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 \$1,772,000. The Fund paid distributions of \$3,357,000 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 withdrawal fees and interest earned on cash held for the purpose of distribution prior to the distribution being made.

Total gross management fees excluding rebates for the year ended 31 March 2017 amounted to \$1,095,000 (31 March 2016: \$413,000), with \$9,000 (31 March 2016: \$92,000) of outstanding accrued management fees due to the Manager at the end of the year.

For the year ended 31 March 2017, total direct purchase application fees amounted to \$2,000 (31 March 2016: \$1,000).

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

Other related party transactions

As at 31 March 2017 the Fund had a payable to the Manager of \$2,000 (31 March 2016: \$nil).

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

10. 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 the profit and loss are short-term financial assets and financial liabilities whose carrying amounts approximate fair value.

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

10. FINANCIAL RISK MANAGEMENT (Continued)

Financial instruments by category

	2017 \$'000	2016 \$'000
<u>Loans and receivables</u>		
Cash at banks	1,597	2,344
Receivables	6,485	2,266
<u>Financial assets and financial liabilities at fair value through profit and loss</u>		
Investment securities held at fair value through profit or loss	199,227	197,306
Equity securities held at fair value through profit or loss	-	789
Derivative held for trading (financial liabilities)	-	(28)
<u>Other financial liabilities</u>		
Management fees payable	(9)	(92)
Distribution payable to unitholders	(3)	(1,780)
Funds held for unit purchases	(29)	(4)
Unsettled trades	(4,500)	-
Other current liabilities	(2)	-

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

10a. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is a direct consequence of investing in fixed income securities (mainly debt securities).

The Fund holds interest-bearing financial assets and liabilities - the values of which move up and down inversely to movements in market interest rates and is therefore exposed to interest rate risk.

The exposure of the Fund to interest rate risk is an investment decision taken by the Investment Manager and the size of that risk is limited in the mandate of the Investment Manager and is monitored and reviewed by the Manager.

The following table analyses the Fund's interest rate risk exposure. The analysis has been prepared on the basis of the remaining period to contractual repricing or maturity dates.

	2017					
	Within 6 months \$'000	Between 6- 12 months \$'000	Between 1- 2 years \$'000	Between 2- 5 years \$'000	Over 5 years \$'000	Total \$'000
Cash at banks	1,597	-	-	-	-	1,597
Investment securities held at fair value through profit or loss	2,075	10,290	10,469	112,186	64,207	199,227
Total financial assets subject to interest rate risk	3,672	10,290	10,469	112,186	64,207	200,824

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

10. FINANCIAL RISK MANAGEMENT (Continued)

	2016					Total \$'000
	Within 6 months \$'000	Between 6- 12 months \$'000	Between 1- 2 years \$'000	Between 2- 5 years \$'000	Over 5 years \$'000	
ASSETS						
Cash at banks	2,344	-	-	-	-	2,344
Investment securities held at fair value through profit or loss	<u>996</u>	<u>6,785</u>	<u>19,859</u>	<u>97,150</u>	<u>72,516</u>	<u>197,306</u>
Total financial assets subject to interest rate risk	<u>3,340</u>	<u>6,785</u>	<u>19,859</u>	<u>97,150</u>	<u>72,516</u>	<u>199,650</u>

The tables below show the sensitivity of the Fund's Statement of Comprehensive Income to a reasonably possible change in interest rate with all other variables remaining constant. The analysis is performed on the same basis for 31 March 2016. The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rate on:

- 1) The interest income for the year based on floating rate financial assets held at 31 March 2017.
- 2) Changes in fair value of financial assets for the year based on revaluing fixed rate financial assets at 31 March 2017.

	2017			
	Sensitivity of interest income		Sensitivity of changes in fair value of investments	
	100 basis points increase	100 basis points decrease	100 basis points increase	100 basis points decrease
	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	16	(16)	-	-
Investment securities held at fair value through profit or loss	132	(132)	(7,090)	7,608

	2016			
	Sensitivity of interest income		Sensitivity of changes in fair value of investments	
	100 basis points increase	100 basis points decrease	100 basis points increase	100 basis points decrease
	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	23	(23)	-	-
Investment securities held at fair value through profit or loss	144	(144)	(7,835)	8,382

10b. Credit risk

Credit risk represents the risk that a counterparty to the financial instrument will fail to perform contractual obligations under a contract and cause the Fund to incur a loss.

With respect to credit risk arising from the financial assets of the Fund, the Fund's exposure to credit risk arises from the default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The Fund holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

The analysis below summarises the credit quality of the Fund's exposure rated externally by Standard & Poor's, Moody's or Fitch. In situations where a security has different ratings by the agencies, the highest rating applies. If a security is not rated by one of these agencies, the Investment Manager will assess what rating the security might attain if it were to seek an external rating.

NZ BOND FUND

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

10. FINANCIAL RISK MANAGEMENT (Continued)

	2017				Total \$'000
	AAA to AA-	A+ to A-	BBB+ to B-	Less than BBB-	
	\$'000	\$'000	\$'000	\$'000	
NZ bank bills	-	507	-	-	507
NZ government and local government bonds	27,141	-	-	-	27,141
NZ corporate bonds	56,314	39,722	69,603	5,940	171,579
	83,455	40,229	69,603	5,940	199,227

	2016				Total \$'000
	AAA to AA-	A+ to A-	BBB+ to B-	Less than BBB-	
	\$'000	\$'000	\$'000	\$'000	
NZ bank bills	-	1,292	-	-	1,292
NZ government and local government bonds	26,054	-	-	-	26,054
NZ corporate bonds	65,028	50,003	43,631	11,298	169,960
	91,082	51,295	43,631	11,298	197,306

Cash and cash equivalents

The Fund's cash and cash equivalents balances are held with ANZ Bank New Zealand Limited ('ANZ') 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 excluding bank overdraft with each bank above at the reporting date.

	2017		2016	
	Balance	Credit rating	Balance	Credit rating
	\$'000		\$'000	
ANZ	31	AA-	1,784	AA-
Westpac	1,566	AA-	560	AA-
	1,597		2,344	

The Investment Manager is responsible for assessing and monitoring the creditworthiness of borrowers, guarantors, issuers of debt securities, acceptors of bills of exchange, or other sources of credit risk.

10c. 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 is able to generate sufficient cash on a timely basis to meet its financial commitments and normal level of redemptions. The Investment Manager ensures that the Fund has appropriate liquidity levels within allowable benchmark ranges. In the event of abnormal levels of redemptions, timing of payments may depend on the ability of the Fund to realise its underlying investments on a timely basis, subject to provisions in the Trust Deed.

The table below analyses the net settled derivative financial assets and financial liabilities into relevant maturity groupings based on the remaining periods at balance date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

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

10. FINANCIAL RISK MANAGEMENT (Continued)

		2017				
	Statement of Financial Position \$000	Contractual cash flows \$000	Within 6 months \$000	Between 6- 12 months \$000	Between 1- 5 years \$000	Over 5 years \$000
Derivative assets held for trading <i>Inflow</i>	-	-	-	-	-	-
		2016				
	Statement of Financial Position \$000	Contractual cash flows \$000	Within 6 months \$000	Between 6- 12 months \$000	Between 1- 5 years \$000	Over 5 years \$000
Derivative liabilities held for trading <i>Outflow</i>	(28)	28	28	-	-	-

11. COMMITMENTS AND CONTINGENCIES

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

12. 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 NZ Bond Fund

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of NZ Bond Fund (the fund) on pages 3 to 18:

- 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 \$2,074,000 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.

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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 96.0% 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 bonds or other simple fixed interest instruments. 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 a sample of the 31 March 2017 valuations of listed fixed interest instruments to externally quoted prices and unlisted fixed interest investments to broker quotes. Where externally quoted prices or broker quotes are not available we applied valuation methods using observable market interest rates to assess the valuation
- 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

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for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to 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

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

Brent Manning

For and on behalf of

KPMG

Wellington

25 May 2017