



NZ DIVIDEND FUND

**FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017**

Presented by Smartshares Limited, Manager of the NZ Dividend Fund

NZ DIVIDEND FUND

TABLE OF CONTENTS

	Page
Directory	1
Statement by the Manager	2
Financial Statements	
Statement of Comprehensive Income	3
Statement of Changes in Unitholders' Funds	4
Statement of Financial Position	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 16
Unitholder Information	17

NZ DIVIDEND FUND

DIRECTORY

THE MANAGER

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

THE SUPERVISOR

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

This is also the address of the registered office.

Phone: 0800 80 87 80
Email: smartshares@smartshares.co.nz
Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

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

AUDITOR

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

DIRECTORS OF THE MANAGER

Bevan K. Miller (resigned 27 October 2017)
Guy R. Elliffe
A. John Williams
Paul J. Baldwin
Mark J. Peterson (appointed 27 October 2017)

SOLICITOR

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

INVESTMENT ADMINISTRATOR

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

INVESTMENT CUSTODIAN

JBWere (NZ) Nominees Limited

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.

NZ DIVIDEND 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'). 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 Dividend Fund (the 'Fund') was created by an establishment deed dated 19 March 2015 as amended on 5 June 2015 and 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 30 September 2017, and the results of its financial performance and cash flows for the six months ended 30 September 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 23 November 2017.

NZ DIVIDEND FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

		Unaudited Six Months Ended 30 September 2017 \$'000	Unaudited Six Months Ended 30 September 2016 \$'000	Audited Year Ended 31 March 2017 \$'000
	Note			
INCOME				
Dividend income		1,145	968	1,803
Securities lending income		4	6	9
Net changes in fair value of financial assets at fair value through profit or loss		<u>654</u>	<u>986</u>	<u>(124)</u>
Total income		<u>1,803</u>	<u>1,960</u>	<u>1,688</u>
EXPENSES				
Management fees expense	7	(99)	(71)	(158)
Miscellaneous expenses		<u>(1)</u>	<u>-</u>	<u>(1)</u>
Total expenses		<u>(100)</u>	<u>(71)</u>	<u>(159)</u>
Profit before tax		1,703	1,889	1,529
Income tax expense	1	<u>(3)</u>	<u>(23)</u>	<u>(38)</u>
Profit after tax		1,700	1,866	1,491
Other comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income		<u>1,700</u>	<u>1,866</u>	<u>1,491</u>
EARNINGS PER UNIT				
Basic and diluted earnings per unit (cents per unit)	4	<u>5.23</u>	<u>7.87</u>	<u>5.62</u>

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

NZ DIVIDEND FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

		Unaudited Six Months Ended 30 September 2017 \$'000	Unaudited Six Months Ended 30 September 2016 \$'000	Audited Year Ended 31 March 2017 \$'000
Unitholders' funds at the beginning of the period/year		34,029	24,806	24,806
Total comprehensive income for the period/year		<u>1,700</u>	<u>1,866</u>	<u>1,491</u>
Subscriptions from unitholders	6	3,105	3,287	8,943
Distributions to unitholders	5	<u>(750)</u>	<u>(497)</u>	<u>(1,211)</u>
		<u>2,355</u>	<u>2,790</u>	<u>7,732</u>
Unitholders' funds at the end of the period/year		<u><u>38,084</u></u>	<u><u>29,462</u></u>	<u><u>34,029</u></u>

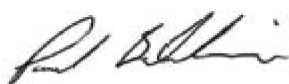
The accompanying notes form part of and should be read in conjunction with these financial statements.

NZ DIVIDEND FUND

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017

		Unaudited As At 30 September 2017 \$'000	Unaudited As At 30 September 2016 \$'000	Audited As At 31 March 2017 \$'000
	Note			
ASSETS				
Cash and cash equivalents		745	756	922
Receivables		488	338	414
Investments in equity securities held at fair value through profit or loss	2	36,985	29,100	33,798
Taxation receivable		20	14	20
TOTAL ASSETS		38,238	30,208	35,154
LIABILITIES				
Management fees payable	7	(2)	(13)	(2)
Deferred tax liability	1	(10)	(12)	(14)
Funds held for unit purchases		(142)	(440)	(566)
Unsettled trades		-	(281)	(543)
TOTAL LIABILITIES		(154)	(746)	(1,125)
UNITHOLDERS' FUNDS		38,084	29,462	34,029
TOTAL LIABILITIES AND UNITHOLDERS' FUNDS		38,238	30,208	35,154

For and on behalf of the Manager, Smartshares Limited, who authorised the issue of the financial statements on 23 November 2017.



Director



Director

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

NZ DIVIDEND FUND

STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

	Unaudited Six Months Ended 30 September 2017 \$'000	Unaudited Year Ended 30 September 2016 \$'000	Audited Year Ended 31 March 2017 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
<i>Cash was provided from:</i>			
Dividend income received	1,071	932	1,691
Securities lending income received	4	6	9
<i>Cash was applied to:</i>			
Management fees paid	(99)	(69)	(167)
Taxation paid	(7)	(59)	(78)
Miscellaneous expenses paid	(1)	-	(1)
Net cash flows from operating activities	968	810	1,454
CASH FLOWS FROM INVESTING ACTIVITIES			
<i>Cash was provided from:</i>			
Sale of investments	5,814	3,604	7,890
<i>Cash was applied to:</i>			
Purchase of investments	(7,891)	(4,655)	(12,513)
Net cash flows from investing activities	(2,077)	(1,051)	(4,623)
CASH FLOWS FROM FINANCING ACTIVITIES			
<i>Cash was provided from:</i>			
Subscriptions received from unitholders	1,682	1,160	4,968
<i>Cash was applied to:</i>			
Distributions paid to unitholders	(750)	(497)	(1,211)
Net cash flows from financing activities	932	663	3,757
Net (decrease)/increase in cash and cash equivalents	(177)	422	588
Cash and cash equivalents at the beginning of the period/year	922	334	334
Cash and cash equivalents at the end of period/year	745	756	922
Reconciliation of profit after tax to net cash flows from operating activities			
Profit after tax	1,700	1,866	1,491
Net changes in fair value of financial assets at fair value through profit or loss	(654)	(986)	124
Increase in taxation receivable	-	(14)	(20)
Decrease in taxation payable	-	(34)	(34)
(Decrease)/increase in deferred tax liability	(4)	12	14
Increase/(decrease) in management fees payable	-	2	(9)
Increase in receivables	(74)	(36)	(112)
Net cash flows from operating activities	968	810	1,454

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

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

GENERAL INFORMATION

The NZ Dividend 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 19 March 2015 and commenced operation on 7 April 2015.

The Fund's units are quoted on the NZX Main Board. The fund is a passive investment fund that tracks the S&P/NZX 50 High Dividend Index ('the Index'). As prescribed by the Trust Deed, the Fund invests in the securities included in the Index broadly in proportion to the weightings of the Index. Investments are valued at fair value according to last traded market prices on the NZX Main Board on 29 September 2016 (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 periods/year presented.

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 the financial assets' 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.

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.

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

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 relate to cash contributions, withdrawals and distributions.

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 securities of the constituent companies in proportion to the index and of 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 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.

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 distributions are on the last business day of May and November in each year. Currently, distributions are paid to unitholders 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 dividends from the investments in securities listed in Note 2 and securities lending income after the deduction of management fees. The Fund is able to utilise imputation credits when they arise. 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 reporting 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 accrued dividends and tax losses to be carried forward.

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.

Securities lending

The Fund enters into securities lending transactions whereby it gives loans of securities recognised on the Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the lent securities or a portion of them. As all or substantially all risks and rewards are retained, the lent securities are not derecognised.

Segment information

The Fund operates solely in the business of investment management, investing in New Zealand equities. The Fund received all of its income from its New Zealand equity investments. For the period ended 30 September 2017, three equity investments individually contributed 10% or more of the Fund's dividend income (30 September 2016: two equity investments; 31 March 2017: two equity investments). The individual dividend income received from these three equity investments was \$147,000, \$124,000 and \$119,000 (30 September 2016: \$243,000 and \$98,000; 31 March 2017: \$315,000 and \$212,000).

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

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 period. All policies have been applied on a basis consistent with those used in the prior periods.

(b) New accounting standards adopted

There were no new accounting standards adopted during the period that have a material impact to 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 29 September 2016, 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.

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

1. TAXATION

	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
Tax expense comprises:			
Current tax expense	(8)	(11)	(54)
Prior period adjustment	-	-	-
Deferred tax movement	5	(12)	16
Total tax expense	(3)	(23)	(38)

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

Income tax expense	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
Profit before tax	1,703	1,889	1,529
Income tax using the statutory income tax rate 28%	(477)	(529)	(428)
Net changes in fair value of financial assets	183	276	(35)
Non taxable income	29	90	63
Gross up of imputation credits	(102)	(55)	(141)
	(367)	(218)	(541)
Less imputation credits and other tax credits	364	195	503
Income tax expense as per Statement of Comprehensive Income	(3)	(23)	(38)

Deferred tax	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
Opening balance	(14)	-	-
Current period movement	4	(12)	16
Prior period adjustment	-	-	(30)
Closing balance	(10)	(12)	(14)

Imputation credit account (ICA)	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
Imputation credits available for use in subsequent periods	455	352	352

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

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

	30 September 2017		30 September 2016		31 March 2017	
	Number of shares '000	Fair value \$'000	Number of shares '000	Fair value \$'000	Number of shares '000	Fair value \$'000
Underlying securities						
Auckland International Airport Limited	-	-	-	-	380	2,566
Air New Zealand Limited	938	3,160	723	1,344	736	1,810
Australia and New Zealand Banking Group Limited	14	456	18	513	14	479
Argosy Property Limited	645	671	552	618	655	635
Chorus Limited	275	1,079	-	-	306	1,320
Contact Energy Limited	455	2,503	429	2,163	520	2,632
Ebos Group Limited	-	-	30	568	35	642
Fletcher Building Limited	485	3,873	333	3,572	333	2,768
Freightways Limited	81	627	89	584	98	731
Fonterra Shareholders' Fund	64	398	91	543	78	473
Goodman Property Trust	895	1,145	678	884	775	934
Genesis Energy Limited	928	2,219	519	1,086	548	1,139
Heartland Bank Limited	-	-	452	682	-	-
Infratil Limited	426	1,330	369	1,196	471	1,371
Kiwi Property Group Limited	846	1,142	743	1,115	852	1,214
Meridian Energy Limited	1,316	3,744	804	2,091	902	2,529
Mercury NZ Limited	860	2,915	441	1,343	472	1,486
Metro Performance Glass Limited	146	146	83	178	91	118
The New Zealand Refining Company Limited	170	434	218	534	-	-
Precinct Properties New Zealand Limited	697	889	541	704	607	740
Restaurant Brands NZ Limited	67	454	-	-	-	-
SKYCITY Entertainment Group Limited	371	1,393	293	1,343	409	1,699
Sky Network Television Limited	486	1,312	360	1,773	403	1,578
Spark New Zealand Limited	993	3,623	791	2,855	928	3,250
Tourism Holdings Limited	69	340	-	-	77	288
Trade Me Group Limited	189	865	206	1,156	212	1,087
Westpac Banking Corporation	19	651	20	628	18	710
Z Energy Limited	220	1,616	194	1,627	230	1,599
		<u>36,985</u>		<u>29,100</u>		<u>33,798</u>

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 at the reporting date. The investments are registered in the name of JBWere (NZ) Nominees Limited, the custodian of the Fund.

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 period ended 30 September 2017 (30 September 2016: none; 31 March 2017: none).

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

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 period.

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

	30 September 2017	30 September 2016	31 March 2017
Profit after tax (\$'000)	1,700	1,866	1,491
Weighted average number of units ('000)	<u>32,525</u>	<u>23,712</u>	<u>26,535</u>
Basic and diluted earnings per unit (cents per unit)	<u><u>5.23</u></u>	<u><u>7.87</u></u>	<u><u>5.62</u></u>

5. DISTRIBUTION PAYABLE TO UNITHOLDERS

	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
Opening distribution payable	-	-	-
Distributions accrued to unitholders	750	497	1,211
Distributed to unitholders	<u>(750)</u>	<u>(497)</u>	<u>(1,211)</u>
Closing distribution payable	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

Distributions declared and paid

	Year ended	Distribution per unit (cents per unit)	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
June 2016 (paid July 2016)	31/03/2017	2.15	-	497	497
November 2016 (paid December 2016)	31/03/2017	2.48	-	-	714
May 2017 (paid June 2017)	31/03/2018	2.37	<u>750</u>	<u>-</u>	<u>-</u>
			<u><u>750</u></u>	<u><u>497</u></u>	<u><u>1,211</u></u>

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

6. UNITHOLDERS' FUNDS

As at 30 September 2017 there were 33,462,000 units on issue (30 September 2016: 25,587,000; 31 March 2017: 30,712,000).

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 period ended 30 September 2017 was 2,750,000 (30 September 2016: 2,875,000; 31 March 2017: 8,000,000) for total value of \$3,105,000 (30 September 2016: \$3,287,000; 31 March 2017: \$8,943,000).

The number of units redeemed during the period ended 30 September 2017 was nil (30 September 2016: nil; 31 March 2017: nil) for total value of \$nil (30 September 2016: \$nil; 31 March 2017: \$nil).

	30 September 2017 '000	30 September 2016 '000	31 March 2017 '000
Movement in the number of units			
Balance at the beginning of the period/year	30,712	22,712	22,712
Subscriptions received during the period/year	<u>2,750</u>	<u>2,875</u>	<u>8,000</u>
Units on issue at the end of the period/year	<u>33,462</u>	<u>25,587</u>	<u>30,712</u>

The net asset value of each unit per the financial statements is \$1.13813 (30 September 2016: \$1.15144; 31 March 2017: \$1.10800). Any difference between the net asset value announced to the market for 29 September 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 period.

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 until 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 comply with the Financial Markets Conduct Act 2013.

As at 30 September 2017, SLI held 19,627,068 units (31 March 2017: 19,626,510) valued at \$22,338,000 (31 March 2017: \$21,747,000) in the Fund. As at 30 September 2016 SLSS held 19,401,510 units valued at \$22,335,000 in the Fund.

Distributions

The Fund paid distributions of \$464,000 to SLI for the period ended 30 September 2017 (31 March 2017: \$486,000). The balance remaining as payable at the end of the period is \$nil (31 March 2017: \$nil). The Fund paid distributions of \$423,000 to SLSS for the period ending 30 September 2016 (31 March 2017: \$423,000). The balance remaining as payable to SLSS as at 30 September 2016 was \$nil. All distributions were settled prior to the transfer of investments from SLSS to SLI on 28 October 2016.

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

7. RELATED PARTY TRANSACTIONS (Continued)

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 all direct purchase application fees and interest earned on cash at banks.

Total gross management fees excluding rebates for the period ended 30 September 2017 amounted to \$99,000 (30 September 2016: \$71,000; 31 March 2017: \$158,000) with \$2,000 (30 September 2016: \$13,000; 31 March 2017: \$2,000) of outstanding accrued management fees due to the Manager at the end of the period.

The total interest earned on cash at banks for the period ended 30 September 2017 amounted to \$7,000 (30 September 2016: \$6,000; 31 March 2017: \$13,000).

Total direct purchase application fees for the period ended 30 September 2017 amounted to \$4,000 (30 September 2016: \$5,000; 31 March 2017: \$9,000).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the period ended 30 September 2017 was \$nil (30 September 2016: \$nil; 31 March 2017: \$5,000).

The Fund has a securities lending agreement with New Zealand Clearing Limited ('NZCL'), a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. As at 30 September 2017 the value of securities the Fund had on loan to NZCL was \$1,691,000 (30 September 2016: \$837,000; 31 March 2017: \$861,000).

Total security lending fees for the period ended 30 September 2017 amounted to \$4,000 (30 September 2016: \$6,000; 31 March 2017: \$9,000), with the accrued fees due to the Fund of \$1,000 (30 September 2016: \$1,000; 31 March 2017: \$1,000). The fees earned by the Fund represent fifty percent of the total fee earned from the securities lending agreement the Fund has with NZCL. The other fifty percent is income of the Manager for administering the securities lending agreement.

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

Financial instruments by category

	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
<u>Loans and receivables</u>			
Cash and cash equivalents	745	756	922
Receivables	488	338	414
<u>Financial assets at fair value through profit and loss</u>			
Investments in equity securities held at fair value through profit or loss	36,985	29,100	33,798
<u>Other financial liabilities</u>			
Management fees payable	(2)	(13)	(2)
Funds held for unit purchases	(142)	(440)	(566)
Unsettled trades	-	(281)	(543)

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

8. FINANCIAL RISK MANAGEMENT (Continued)

The Fund's activities expose it to a variety of financial risks: market price risk, credit risk, liquidity risk and securities lending 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.

Because the Fund tracks a New Zealand equity index and is fully invested in the index's underlying New Zealand equity securities, the value of the Fund will move up and down with the New Zealand market.

A 10% increase/decrease in equity prices as at 30 September 2017 would have increased/decreased net profit and unitholder funds by \$3,699,000 (30 September 2016: \$2,910,000; 31 March 2017: \$3,380,000).

8b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour 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.

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:

	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
Cash and cash equivalents	745	756	922
Receivables	488	338	414

Cash and cash equivalents

The Fund's cash and cash equivalents balances are held with ANZ Bank New Zealand Limited ('ANZ') and Bank of New Zealand Limited ('BNZ').

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

	30 September 2017		30 September 2016		31 March 2017	
	Balance \$'000	Credit rating	Balance \$'000	Credit rating	Balance \$'000	Credit rating
ANZ	142	AA-	440	AA-	566	AA-
BNZ	603	AA-	316	AA-	356	AA-
	<u>745</u>		<u>756</u>		<u>922</u>	

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 investments in listed securities are considered readily realisable, as they are quoted on the NZX Main Board. 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 the proportionate number of underlying securities in return for the units. Liquidity risk for the Fund is therefore low.

NZ DIVIDEND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

8. FINANCIAL RISK MANAGEMENT (Continued)

8d. Securities lending risk

A number of possible risks arise from the securities lending program implemented for the Fund. These include, but are not limited to, the risk that a borrower of securities could fail to deliver equivalent securities on termination of a loan or encounter financial difficulties (resulting in delays in or failure to redeliver securities to the Fund), the risk of failure of the central counterparty settlement system, the risk that the contract relating to the lending will for whatever reason not be legally enforceable or documented correctly (resulting, for example, in an inability to enforce an obligation to re-transfer securities) and the risk that the operational procedures adopted in respect of the Fund could result in errors, fraud or misconduct that cause a loss to the Fund.

In order to limit the Fund's exposure to risk that may arise as a result of securities lending, the Fund has a limitation of 50% of the value of its securities it may lend at any point in time. Individual or multiple securities can be lent at any given time, for a minimum of one day. Fees are charged accordingly.

At 30 September 2017, the single borrower of the Fund's securities is New Zealand Clearing Limited ('NZCL'), a wholly owned subsidiary of NZX Limited. Securities lent are backed by collateral of the borrower.

On 30 September 2017 the value of securities the Fund had on loan to NZCL was \$1,691,000 (30 September 2016: \$837,000; 31 March 2017: \$861,000).

9. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 30 September 2017 (30 September 2016: none; 31 March 2017: none).

10. EVENTS AFTER THE REPORTING PERIOD

Since 30 September 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.

NZ DIVIDEND FUND

UNITHOLDER INFORMATION

Distribution of security holders and security holdings as at 30 September 2017

	No. of holders	% of holders	No. of securities	% of securities
1 - 1,000	214	24.54	131,024	0.39
1,001 - 5,000	323	37.05	812,488	2.43
5,001 - 10,000	138	15.83	1,045,751	3.13
10,001 - 50,000	161	18.46	3,881,948	11.59
50,001 - 100,000	20	2.29	1,390,623	4.16
Greater than 100,000	16	1.83	26,200,468	78.30
Totals	872	100.00	33,462,302	100.00

20 largest registered holders of quoted equity securities as at 30 September 2017

Full name	Total	Percentage %
SuperLife Nominees Limited	19,627,068	58.65
Investment Custodial Services Limited	1,803,088	5.39
Gary Anthony Vink & Jane Margaret Vink	1,452,635	4.34
FNZ Custodians Limited	817,700	2.44
Joanna Marie Deighton	451,570	1.35
My Tax Back NZ Limited	436,681	1.30
Martin Clive Farrell & Karin Joanne Farrell & Jill Maree Darragh	353,328	1.06
Martin Clive Farrell & Denise Ruth Farrell & Richard Heywood Taylor	213,740	0.64
Matthew Weir	182,728	0.55
Alan James Phillips & Helen Marie Phillips	143,775	0.43
Jonathan Douglas Schwass & Ann Elizabeth Howarth	138,869	0.42
Barbara Anne Bridger	133,086	0.40
Donald John Lyon	120,000	0.36
Investment Custodial Services Limited	114,687	0.34
Theodore Francis Duyvestyn & Maree Margaret Ashton & Graham Brown & Co Trustees Limited	109,808	0.33
MLT Investments Limited	101,705	0.30
Tracy Ann Woodward	95,211	0.28
Michael Brian Howard Kersey	90,224	0.27
William Ben Allen & Stephen Lesley McIntosh	88,195	0.26
Christopher Bruce Rennie & Katharine Margaret Price	81,675	0.24
Totals	26,555,773	79.35

Substantial security holdings

The following information has been given pursuant to section 293 of the Financial Markets Conduct Act 2013 (FMCA). According to Smartshares records and disclosures made under section 280(1)(b) of the FMCA, there were no substantial product holders in the Fund as at 30 September 2017. The total number of units on issue at 30 September 2017 was 33,462,302.

Directors' interest in units as at 30 September 2017

	Beneficial	Non - Beneficial
Bevan K. Miller	2,018*	-
Guy R. Elliffe	3,821*	-
A. John Williams	-	-
Paul J. Baldwin	-	-

*Beneficial interest in these units is indirectly held through the director's interest in the SuperLife KiwiSaver scheme.

	Male	Female
Gender composition of Directors	4	-