



## **NZ BOND FUND**

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

Phone: 0800 80 87 80

Email: [smartshares@smartshares.co.nz](mailto:smartshares@smartshares.co.nz)

Website: [www.smartshares.co.nz](http://www.smartshares.co.nz)

### **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 (resigned 27 October 2017)  
Guy R. Elliffe  
A. John Williams  
Paul J. Baldwin  
Mark J. Peterson (appointed 27 October 2017)

### **AUDITOR**

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

### **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

### **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

## **CORRESPONDENCE**

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

## NZ BOND 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 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 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 BOND 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			
<b>INCOME</b>				
Dividend income		-	14	20
Interest income		4,701	4,853	9,509
Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss		2,490	3,065	(2,848)
Other income		-	109	109
<b>Total income</b>		<u><b>7,191</b></u>	<u><b>8,041</b></u>	<u><b>6,790</b></u>
<b>EXPENSES</b>				
Management fees expense	9	(556)	(550)	(1,095)
Miscellaneous expenses		(1)	(1)	(1)
<b>Total expenses</b>		<u><b>(557)</b></u>	<u><b>(551)</b></u>	<u><b>(1,096)</b></u>
<b>Profit before tax</b>		<b>6,634</b>	<b>7,490</b>	<b>5,694</b>
Income tax expense	1	(1,858)	(2,093)	(1,588)
<b>Profit after tax</b>		<b>4,776</b>	<b>5,397</b>	<b>4,106</b>
Other comprehensive income		-	-	-
<b>Total comprehensive income</b>		<u><u><b>4,776</b></u></u>	<u><u><b>5,397</b></u></u>	<u><u><b>4,106</b></u></u>
<b>EARNINGS PER UNIT</b>				
Basic and diluted earnings per unit (cents per unit)	5	<u><u><b>6.96</b></u></u>	<u><u><b>8.08</b></u></u>	<u><u><b>6.11</b></u></u>

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

# NZ BOND 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
	Note			
Unitholders' funds at the beginning of the period/year		202,887	199,510	199,510
Total comprehensive income for the period/year		<u>4,776</u>	<u>5,397</u>	<u>4,106</u>
Subscriptions from unitholders	7	3,125	2,308	5,110
Distributions to unitholders	6	<u>(2,657)</u>	<u>(2,395)</u>	<u>(5,839)</u>
		<u>468</u>	<u>(87)</u>	<u>(729)</u>
Unitholders' funds at the end of the period/year		<u><u>208,131</u></u>	<u><u>204,820</u></u>	<u><u>202,887</u></u>

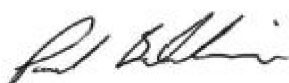
*The accompanying notes form part of and should be read in conjunction with these financial statements.*

# NZ BOND 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			
<b>ASSETS</b>				
Cash at banks		1,032	1,363	1,597
Receivables		2,029	2,114	2,084
Investment securities held at fair value through profit or loss	2	206,413	203,379	199,227
Equity securities held at fair value through profit or loss	2	-	762	-
Derivatives held for trading	3	-	152	-
Taxation receivable		-	-	121
Deferred tax asset	1	-	44	-
Unsettled sales of investments		-	-	4,401
<b>TOTAL ASSETS</b>		<b><u>209,474</u></b>	<b><u>207,814</u></b>	<b><u>207,430</u></b>
<b>LIABILITIES</b>				
Bank overdraft		-	(1,107)	-
Management fees payable	9	(9)	(91)	(9)
Taxation payable		(1,292)	(434)	-
Distribution payable to unitholders	6	(1)	(1,319)	(3)
Funds held for unit purchases		(40)	(43)	(29)
Unsettled purchase of investments		-	-	(4,500)
Other current liabilities	9	(1)	-	(2)
<b>TOTAL LIABILITIES</b>		<b><u>(1,343)</u></b>	<b><u>(2,994)</u></b>	<b><u>(4,543)</u></b>
<b>UNITHOLDERS' FUNDS</b>		<b><u>208,131</u></b>	<b><u>204,820</u></b>	<b><u>202,887</u></b>
<b>TOTAL LIABILITIES AND UNITHOLDERS' FUNDS</b>		<b><u>209,474</u></b>	<b><u>207,814</u></b>	<b><u>207,430</u></b>

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



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Director



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Director

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

# NZ BOND FUND

## STATEMENT OF CASH FLOWS 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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<i>Cash was provided from:</i>			
Dividend income received	-	14	20
Interest income received	4,756	5,005	9,691
Other income received	-	109	109
<i>Cash was applied to:</i>			
Management fees paid	(556)	(551)	(1,178)
Taxation paid	(445)	(2,994)	(3,000)
Miscellaneous expenses paid	(1)	(1)	(1)
<b>Net cash flows from operating activities</b>	<b><u>3,754</u></b>	<b><u>1,582</u></b>	<b><u>5,641</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<i>Cash was provided from:</i>			
Sale of investments	34,287	47,950	69,005
Net repayments from the Manager	-	-	2
<i>Cash was applied to:</i>			
Purchase of investments	(39,084)	(51,111)	(72,914)
Net repayments to the Manager	(1)	-	-
<b>Net cash flows from investing activities</b>	<b><u>(4,798)</u></b>	<b><u>(3,161)</u></b>	<b><u>(3,907)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<i>Cash was provided from:</i>			
Subscriptions received from unitholders	3,138	2,347	5,135
<i>Cash was applied to:</i>			
Distributions paid to unitholders	(2,659)	(2,856)	(7,616)
<b>Net cash flows from financing activities</b>	<b><u>479</u></b>	<b><u>(509)</u></b>	<b><u>(2,481)</u></b>
<b>Net decrease in cash and cash equivalents</b>	<b>(565)</b>	<b>(2,088)</b>	<b>(747)</b>
Cash and cash equivalents at the beginning of the period/year	<u>1,597</u>	<u>2,344</u>	<u>2,344</u>
<b>Cash and cash equivalents at the end of the period/year</b>	<b><u>1,032</u></b>	<b><u>256</u></b>	<b><u>1,597</u></b>
<b>Reconciliation of profit after tax to net cash flows from operating activities</b>			
Profit after tax	4,776	5,397	4,106
Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss	(2,490)	(3,065)	2,848
Decrease/(increase) in taxation receivable	121	-	(121)
Increase/(decrease) in taxation payable	1,292	(894)	(1,328)
(Increase)/decrease in deferred tax asset receivable	-	(7)	37
Decrease in management fees payable	-	(1)	(83)
Decrease in receivables	55	152	182
<b>Net cash flows from operating activities</b>	<b><u>3,754</u></b>	<b><u>1,582</u></b>	<b><u>5,641</u></b>

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

# NZ BOND FUND

## STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 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'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 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 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.

# NZ BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 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, withdrawals and distributions.

# NZ BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 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 distributions are on the last business day of February, May, August 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 interest and gains and losses from its investments in securities outlined in Note 2 after the deduction of management fees and other deductible expenses. The Fund pays tax to 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.

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

# NZ BOND 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
<b>Tax expense comprises:</b>			
Current tax expense	(1,858)	(2,100)	(1,551)
Deferred tax movement	-	7	(37)
<b>Total tax expense</b>	<b>(1,858)</b>	<b>(2,093)</b>	<b>(1,588)</b>

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	6,634	7,490	5,694
<b>Income tax using the statutory income tax rate 28%</b>	<b>(1,858)</b>	<b>(2,097)</b>	<b>(1,594)</b>
Net changes in fair value of financial assets and financial liabilities	-	-	-
Non taxable income	-	-	-
Gross up of imputation credits	-	(2)	(2)
	<b>(1,858)</b>	<b>(2,099)</b>	<b>(1,596)</b>
Less imputation credits and other tax credits	-	6	8
<b>Income tax expense as per Statement of Comprehensive Income</b>	<b>(1,858)</b>	<b>(2,093)</b>	<b>(1,588)</b>

#### Deferred tax

	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
Opening balance	-	37	37
Current period movement	-	7	(37)
<b>Closing balance</b>	<b>-</b>	<b>44</b>	<b>-</b>

#### Imputation credit account (ICA)

	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
Imputation credits available for use in subsequent periods	1,732	2,504	738

# NZ BOND FUND

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

### 2. INVESTMENT SECURITIES

	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
<i>Financial assets at fair value through profit or loss</i>			
Australian corporate bonds	9,684	7,340	-
NZ bank bills	1,496	373	507
NZ government and local government bonds	27,227	28,538	27,141
NZ corporate bonds	168,006	167,128	171,579
Preference shares	-	762	-
	<b>206,413</b>	<b>204,141</b>	<b>199,227</b>

The Fund's investments are managed by Nikko Asset Management New Zealand Limited and are 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.

	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
<b>Financial assets</b>			
<i>Held for Trading :</i>			
Options	-	152	-
	<b>-</b>	<b>152</b>	<b>-</b>

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

# NZ BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 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.

There are no financial instruments are categorised at level 3 (30 September 2016: none; 31 March 2017: none).

	30 September 2017			30 September 2016		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	\$'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	-	206,413	206,413	-	203,379	203,379
Equity securities held at fair value through profit or loss	-	-	-	762	-	762
	<u>-</u>	<u>206,413</u>	<u>206,413</u>	<u>762</u>	<u>203,379</u>	<u>204,141</u>
<i>Derivative assets held for trading:</i>						
Options	-	-	-	-	152	152
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>152</u>	<u>152</u>
	31 March 2017					
	Level 1	Level 2	Total			
	\$'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			
Equity securities held at fair value through profit or loss	-	-	-			
	<u>-</u>	<u>199,227</u>	<u>199,227</u>			
<i>Derivative assets held for trading:</i>						
Options	-	-	-			
	<u>-</u>	<u>-</u>	<u>-</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.

	30 September 2017	30 September 2016	31 March 2017
Profit after tax (\$'000)	4,776	5,397	4,106
Weighted average number of units ('000)	<u>68,609</u>	<u>66,769</u>	<u>67,178</u>
<b>Basic and diluted earnings per unit (cents per unit)</b>	<u><b>6.96</b></u>	<u><b>8.08</b></u>	<u><b>6.11</b></u>

### 6. DISTRIBUTION PAYABLE TO UNITHOLDERS

	30 September 2017	30 September 2016	31 March 2017
	\$'000	\$'000	\$'000
Opening distribution payable	3	1,780	1,780
Distributions accrued to unitholders	2,657	2,395	5,839
Distributed to unitholders	<u>(2,659)</u>	<u>(2,856)</u>	<u>(7,616)</u>
<b>Closing distribution payable</b>	<u><b>1</b></u>	<u><b>1,319</b></u>	<u><b>3</b></u>

# NZ BOND FUND

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

### 6. DISTRIBUTION PAYABLE TO UNITHOLDERS (Continued)

#### Distributions declared and paid

		Distribution per unit	30 September 2017	30 September 2016	31 March 2017
	Year ended	(cents per unit)	\$'000	\$'000	\$'000
June 2016 (paid July 2016)	31/03/2017	1.61	-	1,076	1,076
September 2016 (paid October 2016)	31/03/2017	1.97	-	1,319	1,319
November 2016 (paid December 2016)	31/03/2017	2.14	-	-	1,449
February 2017 (paid March 2017)	31/03/2017	2.95	-	-	1,995
May 2017 (Paid June 2017)	31/03/2018	2.22	1,524	-	-
August 2017 (Paid September 2017)	31/03/2018	1.65	1,133	-	-
			<u>2,657</u>	<u>2,395</u>	<u>5,839</u>

### 7. UNITHOLDERS' FUNDS

As at 30 September 2017 there were 68,974,000 units on issue (30 September 2016: 67,004,000; 30 September 2016: 67,934,000).

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 1,040,000 (30 September 2016: 760,000; 31 March 2017: 1,690,000) for total value of \$3,125,000 (30 September 2016: \$2,308,000; 31 March 2017: \$5,110,000)

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: \$5,110,000)

	30 September 2017	30 September 2016	31 March 2017
	'000	'000	'000
<b>Movement in the number of units</b>			
Balance at the beginning of the period/year	67,934	66,244	66,244
Subscriptions received during the period/year	<u>1,040</u>	<u>760</u>	<u>1,690</u>
<b>Units on issue at the end of the period/year</b>	<u><b>68,974</b></u>	<u><b>67,004</b></u>	<u><b>67,934</b></u>

The net asset value of each unit per the financial statements is \$3.01753 (30 September 2016: \$3.05683; 31 March 2017: \$2.98653). 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.

# NZ BOND FUND

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

### 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.

	30 September 2017			30 September 2016		
	Within 12	Over 12	Total	Within 12	Over 12	Total
	months	months		months	months	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>ASSETS</b>						
Cash at banks	1,032	-	1,032	1,363	-	1,363
Receivables	2,029	-	2,029	2,114	-	2,114
Investment securities held at fair value through profit or loss	17,104	189,309	206,413	4,270	199,109	203,379
Equity securities held at fair value through profit or loss	-	-	-	-	762	762
Derivatives held for trading	-	-	-	152	-	152
Deferred tax asset	-	-	-	44	-	44
<b>Total assets</b>	<b>20,165</b>	<b>189,309</b>	<b>209,474</b>	<b>7,943</b>	<b>199,871</b>	<b>207,814</b>

### LIABILITIES

Bank overdraft	-	-	-	(1,107)	-	(1,107)
Management fees payable	(9)	-	(9)	(91)	-	(91)
Taxation payable	(1,292)	-	(1,292)	(434)	-	(434)
Distribution payable to unitholders	(1)	-	(1)	(1,319)	-	(1,319)
Funds held for unit purchases	(40)	-	(40)	(43)	-	(43)
Other current liabilities	(1)	-	(1)	-	-	-
<b>Total liabilities</b>	<b>(1,343)</b>	<b>-</b>	<b>(1,343)</b>	<b>(2,994)</b>	<b>-</b>	<b>(2,994)</b>

	31 March 2017		
	Within 12	Over 12	Total
	months	months	
	\$'000	\$'000	\$'000
<b>ASSETS</b>			
Cash at banks	1,597	-	1,597
Receivables	2,084	-	2,084
Investment securities held at fair value through profit or loss	12,366	186,861	199,227
Taxation receivable	121	-	121
Unsettled sales of investments	4,401	-	4,401
<b>Total assets</b>	<b>20,569</b>	<b>186,861</b>	<b>207,430</b>

### LIABILITIES

Management fees payable	(9)	-	(9)
Distribution payable to unitholders	(3)	-	(3)
Funds held for unit purchases	(29)	-	(29)
Unsettled purchase of investments	(4,500)	-	(4,500)
Other current liabilities	(2)	-	(2)
<b>Total liabilities</b>	<b>(4,543)</b>	<b>-</b>	<b>(4,543)</b>

# NZ BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 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 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 65,963,747 units (31 March 2017: 65,955,132) valued at \$199,035,000 (31 March 2017: \$196,962,000) in the Fund. As at 30 September 2016, SLSS held 65,938,573 units valued at \$201,525,000 in the Fund.

#### Distributions

The Fund paid distributions of \$2,552,000 to SLI for the period ended 30 September 2017 (31 March 2017: \$3,357,000). The balance remaining as payable at the end of the period is \$nil (31 March 2017: \$nil). The Fund paid distributions of \$2,360,000 to SLSS for the period ending 30 September 2016 (31 March 2017: \$2,360,000). The balance remaining as payable as at 30 September 2016 was \$1,298,000. All distributions were settled prior to the transfer of investments from SLSS to SLI on 28 October 2016.

#### Management fees

The Manager receives management fees from the Fund. Under the Trust Deed the Manager pays the supervisor, investment manager, 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 period ended 30 September 2017 amounted to \$556,000 (30 September 2016: \$550,000; 31 March 2017: \$1,095,000), with \$9,000 (30 September 2016: \$91,000; 31 March 2017: \$9,000) of outstanding accrued management fees due to the Manager at the end of the period.

For the period ended 30 September 2017, total direct purchase application fees amounted to \$2,000 (30 September 2016: \$1,000; 31 March 2017: \$2,000).

The total interest earned on cash at banks for the period ended 30 September 2017 amounted to \$4,000 (30 September 2016: \$nil; 31 March 2017: \$nil).

#### Other related party transactions

As at 30 September 2017 the Fund had a payable to the Manager of \$1,000 (30 September 2016: \$nil; 31 March 2017: \$2,000).

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).

### 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.

# NZ BOND FUND

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

### 10. FINANCIAL RISK MANAGEMENT (Continued)

#### Financial instruments by category

	30 September 2017 \$'000	30 September 2016 \$'000	31 March 2017 \$'000
<u>Loans and receivables</u>			
Cash at banks	1,032	1,363	1,597
Receivables	2,029	2,114	2,084
Unsettled sales of investments	-	-	4,401
<u>Financial assets and financial liabilities at fair value through profit and loss</u>			
Investment securities held at fair value through profit or loss	206,413	203,379	199,227
Equity securities held at fair value through profit or loss	-	762	-
Derivative held for trading (financial assets)	-	152	-
<u>Other financial liabilities</u>			
Bank overdraft	-	(1,107)	-
Management fees payable	(9)	(91)	(9)
Distribution payable to unitholders	(1)	(1,319)	(3)
Funds held for unit purchases	(40)	(43)	(29)
Unsettled purchase of investments	-	-	(4,500)
Other current liabilities	(1)	-	(2)

The Fund's activities expose it to a variety of financial risks: 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 on a regular basis.

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.

	30 September 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
<b>ASSETS</b>						
Cash at banks	1,032	-	-	-	-	1,032
Investment securities held at fair value through profit or loss	11,774	5,330	3,860	134,266	51,183	206,413
<b>Total financial assets subject to interest rate risk</b>	<b>12,806</b>	<b>5,330</b>	<b>3,860</b>	<b>134,266</b>	<b>51,183</b>	<b>207,445</b>

# NZ BOND FUND

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

### 10. FINANCIAL RISK MANAGEMENT (Continued)

	30 September 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	
<b>ASSETS</b>						
Cash at banks	1,363	-	-	-	-	1,363
Investment securities held at fair value through profit or loss	740	3,530	15,326	105,416	78,367	203,379
<b>Total financial assets subject to interest rate risk</b>	<b>2,103</b>	<b>3,530</b>	<b>15,326</b>	<b>105,416</b>	<b>78,367</b>	<b>204,742</b>
<b>LIABILITIES</b>						
Bank overdraft	(1,107)	-	-	-	-	(1,107)
<b>Total financial liabilities subject to interest rate risk</b>	<b>(1,107)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,107)</b>
	31 March 2017					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	
<b>ASSETS</b>						
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
<b>Total financial assets subject to interest rate risk</b>	<b>3,672</b>	<b>10,290</b>	<b>10,469</b>	<b>112,186</b>	<b>64,207</b>	<b>200,824</b>

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 30 September 2016 and 31 March 2017. 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 period based on floating rate financial assets held at 30 September 2017.
- 2) Changes in fair value of financial assets for the period based on revaluing fixed rate financial assets at 30 September 2017.

	30 September 2017			
	Sensitivity of interest income		Sensitivity of changes in fair value of investments	
	100 basis points increase \$'000	100 basis points decrease \$'000	100 basis points increase \$'000	100 basis points decrease \$'000
Cash and cash equivalents	10	(10)	-	-
Investment securities held at fair value through profit or loss	60	(60)	(7,968)	8,420
	30 September 2016			
	Sensitivity of interest income		Sensitivity of changes in fair value of investments	
	100 basis points increase \$'000	100 basis points decrease \$'000	100 basis points increase \$'000	100 basis points decrease \$'000
Cash and cash equivalents	3	(3)	-	-
Investment securities held at fair value through profit or loss	65	(65)	(9,003)	9,841

# NZ BOND FUND

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

### 10. FINANCIAL RISK MANAGEMENT (Continued)

31 March 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

#### 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 credit 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.

30 September 2017

	AAA to AA-	A+ to A-	BBB+ to BBB-	Less than BBB-	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Australian corporate bonds	-	-	9,684	-	9,684
NZ bank bills	-	1,496	-	-	1,496
NZ government and local government bonds	27,227	-	-	-	27,227
NZ corporate bonds	57,054	39,159	71,793	-	168,006
	<u>84,281</u>	<u>40,655</u>	<u>81,477</u>	<u>-</u>	<u>206,413</u>

30 September 2016

	AAA to AA-	A+ to A-	BBB+ to BBB-	Less than BBB-	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Australian corporate bonds	-	-	7,340	-	7,340
NZ bank bills	-	373	-	-	373
NZ government and local government bonds	28,538	-	-	-	28,538
NZ corporate bonds	61,686	39,703	56,950	8,789	167,128
	<u>90,224</u>	<u>40,076</u>	<u>64,290</u>	<u>8,789</u>	<u>203,379</u>

# NZ BOND FUND

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

### 10. FINANCIAL RISK MANAGEMENT (Continued)

31 March 2017

	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to BBB- \$'000	Less than BBB- \$'000	Total \$'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
	<u>83,455</u>	<u>40,229</u>	<u>69,603</u>	<u>5,940</u>	<u>199,227</u>

#### 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.

	30 September 2017		30 September 2016		31 March 2017	
	Balance \$'000	Credit rating	Balance \$'000	Credit rating	Balance \$'000	Credit rating
ANZ	41	AA-	1,363	AA-	31	AA-
Westpac	991	AA-	-	AA-	1,566	AA-
	<u>1,032</u>		<u>1,363</u>		<u>1,597</u>	

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.

	30 September 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 assets held for trading	152					
Inflow		152	152	-	-	-

### 11. COMMITMENTS AND CONTINGENCIES

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

### 12. 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 BOND 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	86	38.56	34,936	0.05
1,001 - 5,000	69	30.94	157,927	0.23
5,001 - 10,000	30	13.45	207,181	0.30
10,001 - 50,000	28	12.56	494,595	0.72
50,001 - 100,000	3	1.35	179,974	0.26
Greater than 100,000	7	3.14	67,898,960	98.44
<b>Totals</b>	<b>223</b>	<b>100.00</b>	<b>68,973,573</b>	<b>100.00</b>

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

Full name	Total	Percentage %
SuperLife Nominees Limited	65,963,747	95.64
Gary Anthony Vink & Jane Margaret Vink	535,123	0.78
FNZ Custodians Limited	463,299	0.67
James Mc Daniel Thomas & Teri Jo Thomas	421,607	0.61
FNZ Custodians Limited	220,073	0.32
Investment Custodial Services Limited	193,824	0.28
Terence Murray Fleming & Jane Michelle Fleming & Sw Trust Services (Ten) Ltd	101,287	0.15
Investment Custodial Services Limited	64,384	0.09
Sharesies Nominee Limited	62,652	0.09
Ajd Family Nominees Limited	52,938	0.08
Robyn Elizabeth Taylor	33,695	0.05
FNZ Custodians Limited	33,561	0.05
Investment Custodial Services Limited	32,835	0.05
Jason Brigg Bedford & Janine Carol Bedford	28,017	0.04
Harsh & Emme Bhoopatkar Trustee Limited	24,417	0.04
William John Duff Eaton	23,250	0.03
Gloria Iris Masters	21,785	0.03
Mark Gerrard Pattenden	21,196	0.03
Craigs Investment Partners Limited	19,806	0.03
Desmond Scofield & Rosemary Anne Lee Scofield	18,515	0.03
<b>Totals</b>	<b>68,336,011</b>	<b>99.09</b>

#### 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 68,973,573.

#### Directors' interest in units as at 30 September 2017

	Beneficial	Non - Beneficial
Bevan K. Miller	4,292*	-
Guy R. Elliffe	16,958*	-
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	-