



## **NZ DIVIDEND FUND**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2018**

**Presented by Smartshares Limited, Manager of the NZ Dividend Fund**

# **NZ DIVIDEND FUND**

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## **NZ DIVIDEND FUND**

### **DIRECTORY**

#### **MANAGER**

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

#### **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](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 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 31 March 2018, and the results of its financial performance and cash flows for the year ended 31 March 2018 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 24 May 2018.

# NZ DIVIDEND FUND

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 \$'000	2017 \$'000
<b>INCOME</b>			
Dividend income		1,753	1,803
Securities lending income		8	9
Net changes in fair value of financial assets at fair value through profit or loss		<u>(846)</u>	<u>(124)</u>
<b>Total income</b>		<b><u>915</u></b>	<b><u>1,688</u></b>
<b>EXPENSES</b>			
Management fees expense	6	(192)	(158)
Miscellaneous expenses		<u>(2)</u>	<u>(1)</u>
<b>Total expenses</b>		<b><u>(194)</u></b>	<b><u>(159)</u></b>
<b>Profit before tax</b>		721	1,529
Income tax expense	1	<u>(1)</u>	<u>(38)</u>
<b>Profit after tax</b>		<b>720</b>	<b>1,491</b>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income</b>		<b><u>720</u></b>	<b><u>1,491</u></b>
<b>EARNINGS PER UNIT</b>			
<b>Basic and diluted earnings per unit (cents per unit)</b>	3	<b><u>2.29</u></b>	<b><u>5.62</u></b>

*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 YEAR ENDED 31 MARCH 2018

		2018 \$'000	2017 \$'000
<b>Unitholders' funds at the beginning of the year</b>		<b>34,029</b>	<b>24,806</b>
<b>Total comprehensive income for the year</b>		<b><u>720</u></b>	<b><u>1,491</u></b>
Subscriptions from unitholders	5	8,234	8,943
Redemptions by unitholders	5	(18,451)	-
Distributions to unitholders	4	<u>(1,742)</u>	<u>(1,211)</u>
		<b><u>(11,959)</u></b>	<b><u>7,732</u></b>
<b>Unitholders' funds at the end of the year</b>		<b><u><u>22,790</u></u></b>	<b><u><u>34,029</u></u></b>

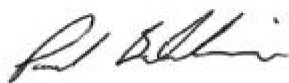
*The accompanying notes form part of and should be read in conjunction with these financial statements.*

# NZ DIVIDEND FUND

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

		As At 31 March 2018 \$'000	As At 31 March 2017 \$'000
	Note		
<b>ASSETS</b>			
Cash and cash equivalents		389	922
Receivables		263	414
Investments in equity securities held at fair value through profit or loss		22,312	33,798
Taxation receivable		3	20
Deferred tax asset		2	-
Unsettled sales of investments		<u>1,760</u>	<u>-</u>
<b>TOTAL ASSETS</b>		<b><u>24,729</u></b>	<b><u>35,154</u></b>
<b>LIABILITIES</b>			
Management fees payable	6	(1)	(2)
Deferred tax liability	1	-	(14)
Funds held for unit purchases		(178)	(566)
Unsettled purchases of investments		<u>(1,760)</u>	<u>(543)</u>
<b>TOTAL LIABILITIES</b>		<b><u>(1,939)</u></b>	<b><u>(1,125)</u></b>
<b>UNITHOLDERS' FUNDS</b>		<b><u>22,790</u></b>	<b><u>34,029</u></b>
<b>TOTAL LIABILITIES AND UNITHOLDERS' FUNDS</b>		<b><u>24,729</u></b>	<b><u>35,154</u></b>

For and on behalf of the Manager, Smartshares Limited, who authorised the issue of the financial statements on 24 May 2018.



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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 DIVIDEND FUND

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2018

	2018 \$'000	2017 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Cash was provided from:</i>		
Dividend income received	1,904	1,691
Securities lending income received	8	9
<i>Cash was applied to:</i>		
Management fees paid	(193)	(167)
Taxation paid	-	(78)
Miscellaneous expenses paid	(2)	(1)
<b>Net cash flows from operating activities</b>	<u><u>1,717</u></u>	<u><u>1,454</u></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<i>Cash was provided from:</i>		
Sale of investments	9,129	7,890
<i>Cash was applied to:</i>		
Purchase of investments	<u>(12,311)</u>	<u>(12,513)</u>
<b>Net cash flows from investing activities</b>	<u><u>(3,182)</u></u>	<u><u>(4,623)</u></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<i>Cash was provided from:</i>		
Subscriptions received from unitholders	2,733	4,968
<i>Cash was applied to:</i>		
Redemptions paid to unitholders	(59)	-
Distributions paid to unitholders	<u>(1,742)</u>	<u>(1,211)</u>
<b>Net cash flows from financing activities</b>	<u><u>932</u></u>	<u><u>3,757</u></u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(533)	588
Cash and cash equivalents at the beginning of the year	<u>922</u>	<u>334</u>
<b>Cash and cash equivalents at the end of year</b>	<u><u>389</u></u>	<u><u>922</u></u>
<b>Reconciliation of profit after tax to net cash flows from operating activities</b>		
Profit after tax	720	1,491
Net changes in fair value of financial assets at fair value through profit or loss	846	124
Decrease/(increase) in taxation receivable	17	(20)
Increase in deferred tax asset	(2)	-
Decrease in taxation payable	-	(34)
(Decrease)/increase in deferred tax liability	(14)	14
Decrease in management fees payable	(1)	(9)
Decrease/(increase) in receivables	<u>151</u>	<u>(112)</u>
<b>Net cash flows from operating activities</b>	<u><u>1,717</u></u>	<u><u>1,454</u></u>

*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 YEAR ENDED 31 MARCH 2018

### 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 March 2018.

### 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 years 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 YEAR ENDED 31 MARCH 2018

### 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, which 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 its investments in securities 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.

# NZ DIVIDEND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 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 years

#### (b) New accounting standards adopted

There were no new accounting standards adopted during the year 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 31 March 2018, and have not been applied in preparing the financial statements. The Fund has not adopted these standards early. The standards which are relevant to the Fund are as follows:

#### NZ IFRS 9: *Financial Instruments*

NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt business instruments must be recognized at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

On adoption of IFRS 9 the Fund's investment portfolio will continue to be classified as fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortised cost with no material impact expected from application of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Fund's financial statements.

#### NZ IFRS 15: *Revenue from contracts with customers*

NZ IFRS 15 makes significant changes to revenue recognition and adds some additional disclosures, replacing NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The new standard provides a five step model to be applied to all contracts with customers when determining when to recognise revenue, and at what amount. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Fund's main sources of revenue are dividends, distributions and gains on financial instruments measured at fair value through profit or loss. As all of these are outside the scope of the new standard, the adoption of NZ IFRS 15 is not expected to have a material impact on the Fund's financial statements.

# NZ DIVIDEND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 1. TAXATION

	2018 \$'000	2017 \$'000
<b>Tax expense comprises:</b>		
Current tax expense	(17)	(54)
Deferred tax movement	16	16
<b>Total tax expense</b>	<b>(1)</b>	<b>(38)</b>

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

<b>Income tax expense</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Profit before tax	721	1,529
<b>Income tax using the statutory income tax rate 28%</b>	<b>(202)</b>	<b>(428)</b>
Net changes in fair value of financial assets	(237)	(35)
Non taxable income	(16)	63
Gross up of imputation credits	(177)	(141)
	<b>(632)</b>	<b>(541)</b>
Less imputation credits and other tax credits	631	503
<b>Income tax expense as per Statement of Comprehensive Income</b>	<b>(1)</b>	<b>(38)</b>

### Deferred tax

	2018 \$'000	2017 \$'000
Opening balance	(14)	-
Current period movement	16	16
Prior period adjustment	-	(30)
<b>Closing balance</b>	<b>2</b>	<b>(14)</b>

### Imputation credit account (ICA)

	2018 \$'000	2017 \$'000
Imputation credits available for use in subsequent periods	250	352

### 2. 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.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as level 1 in the hierarchy. There were no transfers between levels in the year ended 31 March 2018 (2017: none).

# NZ DIVIDEND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 3. 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.

	2018	2017
Profit after tax (\$'000)	720	1,491
Weighted average number of units ('000)	<u>31,432</u>	<u>26,535</u>
<b>Basic and diluted earnings per unit (cents per unit)</b>	<u><u>2.29</u></u>	<u><u>5.62</u></u>

### 4. DISTRIBUTION PAID TO UNITHOLDERS

#### Distributions declared and paid

	Year ended	Distribution per unit (cents per unit)	2018 \$'000	2017 \$'000
June 2016 (paid July 2016)	31/03/2017	2.15	-	497
November 2016 (paid December 2016)	31/03/2017	2.48	-	714
May 2017 (paid June 2017)	31/03/2018	2.37	750	-
November 2017 (paid December 2017)	31/03/2018	2.90	<u>992</u>	<u>-</u>
			<u><u>1,742</u></u>	<u><u>1,211</u></u>

### 5. UNITHOLDERS' FUNDS

As at 31 March 2018 there were 21,282,000 units on issue (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 year ended 31 March 2018 was 7,375,000 (2017: 8,000,000) for total value of \$8,234,000 (2017: \$8,943,000).

The number of units redeemed during the year ended 31 March 2018 was 16,805,000 (2017: nil) for total value of \$18,451,000 (2017: \$nil).

	2018 '000	2017 '000
<b>Movement in the number of units</b>		
Balance at the beginning of the year	30,712	22,712
Subscriptions received during the year	7,375	8,000
Redemptions made during the year	<u>(16,805)</u>	<u>-</u>
<b>Units on issue at the end of the year</b>	<u><u>21,282</u></u>	<u><u>30,712</u></u>

Applications and redemptions are transacted in the form of baskets rather than cash. Baskets are made up of the proportionate number of underlying securities in return for units plus a small cash amount representing the accrued income to be distributed. Subscription cash also includes new direct applications for units as well as regular contributions by current unitholders.

The net asset value of each unit per the financial statements is \$1.07086 (2017: \$1.10800). Any difference between the net asset value announced to the market for 29 March 2018 and the net asset value per the financial statements is due to different unit pricing methodology.

# NZ DIVIDEND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 6. 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 Invest managed investment scheme ('SLI'), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited, held 2,834,876 units (2017: 19,626,510) valued at \$3,036,000 (2017: \$21,747,000) in the Fund.

#### Distributions

The Fund paid distributions of \$1,033,000 to SLI for the year ended 31 March 2018 (2017: \$486,000). The balance remaining as payable at the end of the year is \$nil (2017: \$nil).

#### 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 year ended 31 March 2018 amounted to \$192,000 (2017: \$158,000) with \$1,000 (2017: \$2,000) of outstanding accrued management fees due to the Manager at the end of the year.

The total interest earned on cash at banks for the year ended 31 March 2018 amounted to \$13,000 (2017: \$13,000).

Total direct purchase application fees for the year ended 31 March 2018 amounted to \$6,000 (2017: \$9,000).

#### Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2018 was \$5,000 (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 31 March 2018 the value of securities the Fund had on loan to NZCL was \$724,000 (2017: \$861,000). Total security lending fees for the year ended 31 March 2018 amounted to \$8,000 (2017: \$9,000), with the accrued fees due to the Fund of \$1,000 (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.

### 7. 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

	2018	2017
	\$'000	\$'000
<u>Loans and receivables</u>		
Cash and cash equivalents	389	922
Receivables	263	414
Unsettled sales of investments	1,760	-
<u>Financial assets at fair value through profit and loss</u>		
Investments in equity securities held at fair value through profit or loss	22,312	33,798

# NZ DIVIDEND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### Financial instruments by category

	2018 \$'000	2017 \$'000
<i>Other financial liabilities</i>		
Management fees payable	(1)	(2)
Funds held for unit purchases	(178)	(566)
Unsettled purchases of investments	(1,760)	(543)

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:

#### 7a. 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 31 March 2018 would have increased/decreased net profit and unitholder funds by \$2,231,000 (2017: \$3,380,000).

#### 7b. 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:

	2018 \$'000	2017 \$'000
Cash and cash equivalents	389	922
Receivables	263	414
Unsettled sales of investments	1,760	-

#### 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.

	2018		2017	
	Balance \$'000	Credit rating	Balance \$'000	Credit rating
ANZ	178	AA-	566	AA-
BNZ	211	AA-	356	AA-
	<u>389</u>		<u>922</u>	

## **NZ DIVIDEND FUND**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018**

#### **7. FINANCIAL RISK MANAGEMENT (Continued)**

##### **7c. 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.

##### **7d. 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 31 March 2018, the single borrower of the Fund's securities is New Zealand Clearing Limited ('NZCL'), a wholly owned subsidiary of NZX Limited.

#### **8. COMMITMENTS AND CONTINGENCIES**

The Fund had no commitments or contingencies as at 31 March 2018 (2017: none).

#### **9. EVENTS AFTER THE REPORTING PERIOD**

Since 31 March 2018 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 Dividend Fund

## Report on the financial statements

### Opinion

In our opinion, the accompanying financial statements of NZ Dividend Fund (the fund) on pages 3 to 14:

- i. present fairly in all material respects the fund's financial position as at 31 March 2018 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 2018;
- 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 \$247,000 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.

## NZ DIVIDEND FUND



### Key Audit Matters

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

#### The key audit matter

#### How the matter was addressed in our audit

##### Carrying amount of investments

The fund's portfolio of investments makes up 90.2% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing the 31 March 2018 valuation of listed equity investments to externally quoted prices
- agreeing investment holdings to confirmations received from the administration manager

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



### Other Information

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

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



### Use of this Independent Auditor's Report

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

## NZ DIVIDEND FUND



### 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:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

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

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards

For and on behalf of

KPMG  
Wellington

24 May 2018