



NZ CASH FUND

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

Presented by Smartshares Limited, Manager of the NZ Cash Fund

NZ CASH FUND

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NZ CASH FUND

DIRECTORY

MANAGER

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New Zealand

This is also the address of the registered office.

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Email: smartshares@smartshares.co.nz

Website: www.smartshares.co.nz

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
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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

SUPERVISOR

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

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

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

CORRESPONDENCE

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

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Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). 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 Cash Fund (the 'Fund') was created by an establishment deed dated 15 October 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 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.

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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 \$'000	2017 \$'000
INCOME			
Interest income		3,965	4,373
Net changes in fair value of financial assets at fair value through profit or loss		<u>(136)</u>	<u>(318)</u>
Total income		<u>3,829</u>	<u>4,055</u>
EXPENSES			
Management fees expense	7	(406)	(414)
Miscellaneous expenses		<u>-</u>	<u>(1)</u>
Total expenses		<u>(406)</u>	<u>(415)</u>
Profit before tax		3,423	3,640
Income tax expense	1	<u>(958)</u>	<u>(1,019)</u>
Profit after tax		2,465	2,621
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u><u>2,465</u></u>	<u><u>2,621</u></u>
EARNINGS PER UNIT			
Basic and diluted earnings per unit (cents per unit)	3	<u><u>5.97</u></u>	<u><u>6.26</u></u>

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

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STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 \$'000	2017 \$'000
Unitholders' funds at the beginning of the year		<u>125,538</u>	<u>125,204</u>
Total comprehensive income for the year		<u>2,465</u>	<u>2,621</u>
Subscriptions from unitholders	5	730	449
Redemptions by unitholders	5	(9,850)	-
Distributions to unitholders	4	<u>(2,637)</u>	<u>(2,736)</u>
		<u>(11,757)</u>	<u>(2,287)</u>
Unitholders' funds at the end of the year		<u><u>116,246</u></u>	<u><u>125,538</u></u>

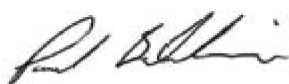
The accompanying notes form part of and should be read in conjunction with these financial statements.

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STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

		As At 31 March 2018 \$'000	As At 31 March 2017 \$'000
	Note		
ASSETS			
Cash and cash equivalents		1,028	1,307
Receivables		283	423
Investment securities held at fair value through profit or loss		56,845	64,375
Bank term deposits		<u>58,737</u>	<u>59,774</u>
TOTAL ASSETS		<u>116,893</u>	<u>125,879</u>
LIABILITIES			
Management fees payable	7	(3)	(3)
Taxation payable		(635)	(336)
Funds held for unit purchases		(8)	(1)
Other current liabilities		<u>(1)</u>	<u>(1)</u>
TOTAL LIABILITIES		<u>(647)</u>	<u>(341)</u>
UNITHOLDERS' FUNDS		<u>116,246</u>	<u>125,538</u>
TOTAL LIABILITIES AND UNITHOLDERS' FUNDS		<u>116,893</u>	<u>125,879</u>

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



Director



Director

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

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2018

	2018 \$'000	2017 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Cash was provided from:</i>		
Interest income received	3,898	4,255
<i>Cash was applied to:</i>		
Management fees paid	(406)	(446)
Taxation paid	(659)	(863)
Miscellaneous expenses paid	-	(1)
Net cash flows from operating activities	<u>2,833</u>	<u>2,945</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
<i>Cash was provided from:</i>		
Sale of investments	182,603	178,408
Net repayments from the Manager	-	1
<i>Cash was applied to:</i>		
Purchase of investments	<u>(173,965)</u>	<u>(179,814)</u>
Net cash flows from investing activities	<u>8,638</u>	<u>(1,405)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>Cash was provided from:</i>		
Subscriptions received from unitholders	737	490
<i>Cash was applied to:</i>		
Redemptions paid to unitholders	(9,850)	-
Distributions paid to unitholders	<u>(2,637)</u>	<u>(3,865)</u>
Net cash flows from financing activities	<u>(11,750)</u>	<u>(3,375)</u>
Net decrease in cash and cash equivalents	(279)	(1,835)
Cash and cash equivalents at the beginning of the year	<u>1,307</u>	<u>3,142</u>
Cash and cash equivalents at the end of the year	<u>1,028</u>	<u>1,307</u>
Reconciliation of profit after tax to net cash flows from operating activities		
Profit after tax	2,465	2,621
Net changes in fair value of financial assets at fair value through profit or loss	136	318
Increase in accrued interest on term deposits	(207)	(19)
Increase in taxation payable	299	156
Decrease in management fees payable	-	(32)
Decrease/(increase) in receivables	<u>140</u>	<u>(99)</u>
Net cash flows from operating activities	<u>2,833</u>	<u>2,945</u>

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

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

GENERAL INFORMATION

The NZ Cash 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 operation on 6 November 2015.

The Fund's units are quoted on the NZX Main Board. The Fund is an investment fund that aims to outperform the S&P/NZX 90-Day Bank Bill Index (the 'Index') over a rolling one-year period. As prescribed by the Trust Deed, the Fund invests in short-term interest-bearing assets and other cash and cash equivalent investments of all types represented in the Index and any other investments that are 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 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.

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) 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.

(b) Changes in fair value of financial assets

Changes in financial assets at fair value through profit or loss are calculated as the difference between the fair value at sale, or at year 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 interest income.

Financial assets at fair value through profit or loss

(a) Classification

The Fund classifies its underlying investments as financial assets at fair value through profit or loss. These financial assets are designated at fair value through profit or loss at inception.

The Fund classifies its underlying investments in bank term deposits as loans and receivables. Financial assets classified as loans and receivables are those with fixed or determinable payments that are not quoted in an active market.

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

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

Financial assets 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 assets 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 make short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, nor does it make use of short sales for arbitrage transactions.

(c) Recognition, derecognition and measurement

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

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.

Subsequent to initial recognition, all financial assets 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 at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise.

Loans and receivables are recognised when, and only when, the Fund becomes a party to the contractual provisions of the instrument.

Loans and receivables are recognised at fair value including directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method less an allowance for impairment where there is objective evidence that an impairment loss on the loans and receivables has been incurred.

(d) 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 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.

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 not falling within the definition of cash. Financing activities are those activities that relate to cash contributions, withdrawals and distributions.

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

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, 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.

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 dates for the distributions are on the last business days of February, May, August and November of 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 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 short-term interest-bearing securities and other cash and cash equivalent investments. The Fund receives all of its income from its investments.

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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 does not plan to adopt 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 interest income 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.

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

1. TAXATION

	2018 \$'000	2017 \$'000
Tax expense comprises:		
Current tax expense	(958)	(1,019)
Total tax expense	(958)	(1,019)

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

Income tax expense

	2018 \$'000	2017 \$'000
Profit before tax	3,423	3,640
Income tax using the statutory income tax rate 28%	(958)	(1,019)
Net changes in fair value of financial assets	-	-
Non taxable income	-	-
Income tax expense as per Statement of Comprehensive Income	(958)	(1,019)

Imputation credit account (ICA)

	2018 \$'000	2017 \$'000
Imputation credits available for use in subsequent periods	635	403

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 bank term deposits with maturities of up to twelve months is deemed to be equivalent to the face value plus accrued interest and have been categorised as level 2 in the hierarchy.

The fair value of fixed interest securities are based on binding dealer price quotations and have been categorised as level 2 in the hierarchy.

There were no transfers between levels in the year ended 31 March 2018 (2017: none).

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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)	2,465	2,621
Weighted average number of units ('000)	<u>41,263</u>	<u>41,866</u>
Basic and diluted earnings per unit (cents per unit)	<u>5.97</u>	<u>6.26</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	1.80	-	751
September 2016 (paid October 2016)	31/03/2017	1.85	-	773
November 2016 (paid December 2016)	31/03/2017	1.21	-	506
February 2017 (paid March 2017)	31/03/2017	1.68	-	706
May 2017 (paid June 2017)	31/03/2018	1.62	679	-
August 2017 (paid September 2017)	31/03/2018	1.60	672	-
November 2017 (paid December 2017)	31/03/2018	1.56	658	-
February 2018 (paid March 2018)	31/03/2018	1.62	<u>628</u>	<u>-</u>
			<u>2,637</u>	<u>2,736</u>

5. UNITHOLDERS' FUNDS

As at 31 March 2018 there were 38,924,000 units on issue (2017: 41,974,000).

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 245,000 (2017: 150,000) for total value of \$730,000 (2017: \$449,000).

The number of units redeemed during the year ended 31 March 2018 was 3,295,000 (2017: nil) for total value of \$9,850,000 (2017: \$nil).

	2018 '000	2017 '000
Movement in the number of units		
Balance at the beginning of the year	41,974	41,824
Subscriptions received during the year	245	150
Redemptions made during the year	<u>(3,295)</u>	<u>-</u>
Units on issue at the end of the year	<u>38,924</u>	<u>41,974</u>

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

5. UNITHOLDERS' FUNDS (Continued)

The net asset value of each unit per the financial statements is \$2.98649 (2017: \$2.99085). 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.

6. MATURITY ANALYSIS

The Fund invests in short-term interest-bearing assets and other cash and cash equivalent 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.

	2018			2017		
	Within 12 months	Over 12 months	Total	Within 12 months	Over 12 months	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS						
Cash and cash equivalents	1,028	-	1,028	1,307	-	1,307
Receivables	283	-	283	423	-	423
Investment securities held at fair value through profit or loss	28,485	28,360	56,845	31,678	32,697	64,375
Bank term deposits	<u>58,737</u>	<u>-</u>	<u>58,737</u>	<u>59,774</u>	<u>-</u>	<u>59,774</u>
Total assets	<u>88,533</u>	<u>28,360</u>	<u>116,893</u>	<u>93,182</u>	<u>32,697</u>	<u>125,879</u>
LIABILITIES						
Management fees payable	(3)	-	(3)	(3)	-	(3)
Taxation payable	(635)	-	(635)	(336)	-	(336)
Funds held for unit purchases	(8)	-	(8)	(1)	-	(1)
Other current liabilities	<u>(1)</u>	<u>-</u>	<u>(1)</u>	<u>(1)</u>	<u>-</u>	<u>(1)</u>
Total liabilities	<u>(647)</u>	<u>-</u>	<u>(647)</u>	<u>(341)</u>	<u>-</u>	<u>(341)</u>

7. RELATED PARTY TRANSACTIONS

Related party holdings

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

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

SuperLife Invest managed investment scheme ('SLI'), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited, held 38,542,636 (2017: 41,753,936) units valued at \$115,093,000 (2017: \$124,896,000) in the Fund.

Distributions

The Fund paid distributions of \$2,618,000 to SLI for the year ended 31 March 2018 (2017: \$1,207,000). The balance remaining as payable at the end of the year is \$nil (2017: \$nil).

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

7. RELATED PARTY TRANSACTIONS (Continued)

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 interest earned on cash held for the purpose of distribution prior to the distribution being made.

Total gross management fees excluding rebates for the year ended 31 March 2018 amounted to \$406,000 (2017: \$414,000), with \$3,000 (2017: \$3,000) 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 \$3,000 (2017: \$2,000).

For the year ended 31 March 2018, total direct purchase application fees amounted to \$nil (2017: \$nil).

Other related party transactions

As at 31 March 2018 the Fund had a payable to the Manager of \$1,000 (2017: \$1,000).

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).

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

	2018 \$'000	2017 \$'000
<u>Loans and receivables</u>		
Cash and cash equivalents	1,028	1,307
Receivables	283	423
Bank term deposits	58,737	59,774
<u>Financial assets at fair value through profit and loss</u>		
Investment securities held at fair value through profit or loss	56,845	64,375
<u>Other financial liabilities</u>		
Management fees payable	(3)	(3)
Funds held for unit purchases	(8)	(1)
Other current liabilities	(1)	(1)

NZ CASH FUND

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

8. FINANCIAL RISK MANAGEMENT (Continued)

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:

8a. 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 - 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.

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

	2018					Total \$'000
	Within 6 months	Between 6- 12 months	Between 1- 2 years	Between 2- 5 years	Over 5 years	
	\$'000	\$'000	\$'000	\$'000	\$'000	
ASSETS						
Cash and cash equivalents	1,028	-	-	-	-	1,028
Investment securities held at fair value through profit or loss	18,502	9,984	20,951	7,408	-	56,845
Bank term deposits	40,712	18,025	-	-	-	58,737
Total financial assets subject to interest rate risk	60,242	28,009	20,951	7,408	-	116,610

	2017					Total \$'000
	Within 6 months	Between 6- 12 months	Between 1- 2 years	Between 2- 5 years	Over 5 years	
	\$'000	\$'000	\$'000	\$'000	\$'000	
ASSETS						
Cash and cash equivalents	1,307	-	-	-	-	1,307
Investment securities held at fair value through profit or loss	23,635	8,043	18,116	14,581	-	64,375
Bank term deposits	37,183	22,591	-	-	-	59,774
Total financial assets subject to interest rate risk	62,125	30,634	18,116	14,581	-	125,456

NZ CASH FUND

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

8. FINANCIAL RISK MANAGEMENT (Continued)

The tables below show the sensitivity of the Fund's Statement of Comprehensive Income to a reasonably possible change in interest rates with all other variables remaining constant. The analysis is performed on the same basis for 31 March 2018 and 31 March 2017. The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rates on:

- 1) The interest income for the year based on floating rate financial assets held at 31 March 2018.
- 2) Changes in fair value of financial assets for the year based on revaluing fixed rate financial assets at 31 March 2018.

	2018			
	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	10	(10)	-	-
Investment securities held at fair value through profit or loss	753	(753)	(23)	23

	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	13	(13)	-	-
Investment securities held at fair value through profit or loss	468	(468)	(7)	8

8b. 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.

	2018			
	AAA to AA-\$'000	A+ to A-\$'000	BBB+ to B-\$'000	Total \$'000
NZ bank bills	16,629	-	-	16,629
NZ corporate bonds	15,117	14,210	10,889	40,216
NZ bank term deposits	22,682	25,913	10,142	58,737
	<u>54,428</u>	<u>40,123</u>	<u>21,031</u>	<u>115,582</u>

NZ CASH FUND

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

8. FINANCIAL RISK MANAGEMENT (Continued)

	2017			
	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to B- \$'000	Total \$'000
NZ bank bills	-	14,607	-	14,607
NZ corporate bonds	19,801	22,477	7,490	49,768
NZ bank term deposits	<u>33,093</u>	<u>16,910</u>	<u>9,771</u>	<u>59,774</u>
	<u>52,894</u>	<u>53,994</u>	<u>17,261</u>	<u>124,149</u>

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

Cash and cash equivalents

The Fund's cash and cash equivalents 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 with each bank above at the reporting date.

	2018		2017	
	Balance \$'000	Credit rating	Balance \$'000	Credit rating
ANZ	9	AA-	5	AA-
Westpac	<u>1,019</u>	AA-	<u>1,302</u>	AA-
	<u>1,028</u>		<u>1,307</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 is able to generate sufficient cash on a timely basis to meet its financial commitments and normal levels 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.

9. COMMITMENTS AND CONTINGENCIES

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

10. EVENTS AFTER THE REPORTING YEAR

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 Cash Fund

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of NZ Cash Fund (the fund) on pages 3 to 17:

- 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 \$1,169,000 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 CASH 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 98.9% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise bonds or other simple fixed interest instruments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing a sample of the 31 March 2018 valuations of listed fixed interest instruments to externally quoted prices and unlisted fixed interest investments to broker quotes. Where externally quoted prices or broker quotes are not available we applied valuation methods using observable market interest rates to assess the valuation
- agreeing investment holdings to confirmations received from the administration manager

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



Other Information

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

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



Use of this Independent Auditor's Report

This report is made solely to the 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 CASH 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