

8 September 2016

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CSN/Holder Number: <CSN/Holder>

Dear investor(s),

Welcome to an update on the Smartshares business as we transition to New Zealand's new financial markets legislation, the Financial Markets Conduct Act 2013 (FMCA).

Included in this letter is an update on our management fees, changes to our website (www.smartshares.co.nz), and information about actions Smartshares is required to undertake as part of its transition to the FMCA. The new legislation does not require you to do anything, and will not affect the contributions you make, the benefits you receive, or how your money is invested.

Please take a few minutes to read the below information. We encourage you to contact the Smartshares team if you have any questions.

NZ Top 50 management fee reduced

The NZ Top 50 fund (FNZ), Smartshares' largest Exchange Traded Fund (ETF), recently surpassed \$200 million in Funds Under Management (FUM). Costs associated with running an ETF reduce proportionally as FUM grows. Smartshares is pleased to announce it is passing this saving on to investors in the NZ Top 50 ETF, reducing the management fee to 0.50% from 0.75%, effective Friday 16 September.

Updates to Smartshares website, online application process

Smartshares is focussed on continuing to educate investors about its product offering and the benefits of ETFs.

To increase transparency for investors, the Smartshares website was updated in June to include historic distributions, market announcements, factsheets for each fund, and summary pages which provide an overview of all Smartshares ETFs.

An online verification system was also implemented which allows investors to make an application for a Smartshares ETF completely online, without the need to submit physical application forms or copies of identification documents.

New financial markets legislation – FMCA explained

The governing law under which Smartshares operates is changing. The FMCA legislation now governs how financial products are created, promoted and sold in New Zealand. It was passed into law in September 2013 and applies to all existing schemes from 1 December 2016.

Timing of the transition

The Smartshares ETF(s) in which you are invested will transition to the FMCA on Friday 16 September 2016, from which time the requirements of the FMCA will apply.

Consequences of the transition

The focus of the FMCA is to provide simple and standardised information to investors. This is so investors can easily compare the products and services provided by different financial institutions.

As part of this standardisation, we have elected to in future pay brokerage charges incurred by the ETFs directly out of the fund (rather than out of the management fee). This is expected to have a low impact to investors and will mean Smartshares ETFs are operated consistently with funds offered by other fund providers in New Zealand so it will be easier for investors to compare different offerings.

All current prospectuses, and the investment statements which are currently available on our website, will be replaced by a shorter document called a product disclosure statement (PDS). On Friday 16 September, a PDS for the ETF(s) that you hold, and a statement of investment policies and objectives for those ETFs, will be available on our website (www.smartshares.co.nz).

In addition, we will be updating the governing documents (such as the Master Trust Deed) for the Smartshares ETFs as part of the FMCA transition. The governing documents for your ETF investments will be available on our website (www.smartshares.co.nz) on Friday 16 September. You can also request a copy by emailing us at smartshares@smartshares.co.nz, and we will send you a copy free of charge.

If you would like further information about the changes Smartshares is required to make as part of its FMCA transition, including contact details for the supervisor and custodian, please refer to the attached information sheet.

Distribution frequency

Smartshares has also used the FMCA transition as an opportunity to review when it pays distributions to investors from each of our ETFs. As the majority of new ETFs are over a year old, we now have a sufficient history of cash flows to determine whether the timings of the distributions to investors can be improved. In reviewing the timings, we considered:

- Aligning Smartshares distribution dates with cash flows from the underlying investments – this is to minimise the time that cash from dividends is held in a fund before being distributed to investors, which can affect investor returns
- Reducing some ETFs with quarterly distributions to semi-annual – this is to avoid distribution periods with zero distributions, which could be because the ETF comprises a high proportion of growth investments (such as some of the global ETFs), or due to the timing of the dividends from the underlying investments (such as DIV and ASD)
- Creating a simple, consistent easy to explain distribution policy across fund categories. All equity ETFs are now semi-annual, and fixed income ETFs are quarterly

(Letter continued on next page)



As a result of this review, Smartshares has amended its distribution frequencies to the following:

ETF	Ticker	Current payment dates	New payment dates
NZ Top 10	TNZ	April/Oct	Jun/Dec
NZ Top 50	FNZ	Apr/Oct	Jun/Dec
NZ Mid Cap	MDZ	Apr/Oct	Jun/Dec
NZ Dividend	DIV	Jan/Apr/Jul/Oct	Jun/Dec
NZ Property	NPZ	Jan/Apr/Jul/Oct	Jun/Dec
Aus Top 20	OZY	Apr/Oct	Jun/Dec
Aus Mid Cap	MZY	Apr/Oct	Jun/Dec
Aus Dividend	ASD	Jan/Apr/Jul/Oct	Jun/Dec
Aus Financials	ASF	Jan/Apr/Jul/Oct	Mar/Sep
Aus Resources	ASR	Apr/Oct	Jun/Dec
Aus Property	ASP	Jan/Apr/Jul/Oct	Jun/Dec
US 500	USF	Feb/May/Aug/Nov	Jun/Dec
US Mid Cap	USM	Feb/May/Aug/Nov	Jun/Dec
US Small Cap	USS	Feb/May/Aug/Nov	Jun/Dec
US Growth	USG	Feb/May/Aug/Nov	Jun/Dec
US Value	USV	Feb/May/Aug/Nov	Jun/Dec
Asia Pacific	APA	Feb/May/Aug/Nov	Jun/Dec
Emerging Markets	EMF	Feb/May/Aug/Nov	Jun/Dec
Europe	EUF	Feb/May/Aug/Nov	Jun/Dec
Total World	TWF	Feb/May/Aug/Nov	Jun/Dec
NZ Bonds	NZB	Jan/Apr/Jul/Oct	Mar/Jun/Sep/Dec
NZ Cash	NZC	Jan/Apr/Jul/Oct	Mar/Jun/Sep/Dec
Global Bonds	GBF	Jan/Apr/Jul/Oct	Mar/Jun/Sep/Dec

To align the funds to the new distribution frequency, ETFs which are due to pay a distribution in October 2016, will for this year only, be paid an additional distribution in December 2016 (so long as there is cash available). The change to distribution dates will not affect the total amount investors receive or change the yield.

Regular savings plan

A reminder that Smartshares operates a regular savings plan. The regular savings plan is a simple, low cost way of regularly investing in Smartshares ETFs. You can apply to join the regular savings plan for any Smartshares ETF in which you have made a minimum initial investment of \$500.

Minimum regular savings contributions are just \$50 per month. There are no application fees charged for these regular contributions, and contributions can be started or stopped at any time. Details relating to the regular savings plan are included in the investment statement for the ETFs and details on how to apply can be found at: www.smartshares.co.nz/invest-now

Keeping up to date with Smartshares

We encourage all Smartshares investors to opt to receive communications electronically. This makes it more effective and convenient for you, while reducing our environmental impact. To update your preference please visit Link Market Services' investor centre: investorcentre.linkmarketservices.co.nz

A reminder that Smartshares provides monthly performance and top holding information on our website, and you can also monitor the current net asset value, and the current market prices of our ETFs at: www.nzx.com

Contact details, questions regarding your holding

For questions regarding your current holding please contact Link Market Services.

Your holding can be accessed and updated online at the Link Market Service investor centre: investorcentre.linkmarketservices.co.nz



Please note you will need your CSN/Holder Number and Authorisation Code (FIN) to access your holding. Joint or corporate holders will need to register a portfolio before any holding details can be updated. If you have already created a portfolio, you only need to add your Smartshares units to your portfolio.

Link Market Services contact details are:

Website	www.linkmarketservices.co.nz
Email	smartshares@linkmarketservices.co.nz
Postal address	PO Box 91976, Auckland, 1142
Street address	Level 11, Deloitte Centre, 80 Queen Street, Auckland 1010
Fax	09 375 5990
Phone	09 375 5998

You can also contact the supervisor or custodian (at the addresses noted in the attached information sheet) or a member of the Smartshares team if you have any questions regarding the Smartshares ETFs or any matter raised in this letter:

Postal Address	PO Box 106 555, Auckland 1143, New Zealand
Street Address	Level 7, Zurich House, 21 Queen Street, Auckland 1011
Email	smartshares@smartshares.co.nz
Phone	0800 80 87 80

All the best,



Aaron Jenkins
NZX Head of Funds Management
Smartshares Limited



An introduction to the Financial Markets Conduct Act 2013 (FMCA)

The FMCA legislation now governs how financial products are created, promoted and sold in New Zealand. It was passed into law in September 2013 and applies to all existing schemes from 1 December 2016. Learn more about the FMCA at: https://fma.govt.nz/consumers/fma-act/#What_is_the_fmc_act

What does Smartshares have to do?

To comply with the FMCA, there are a number of actions Smartshares is required to undertake in relation to our schemes. We must:

- Ensure the schemes have a licensed manager. The manager must be licensed under the FMCA as a “manager of registered schemes”
- Appoint a licensed supervisor and independent custodian
- Amend the trust deed to comply with the provisions of the FMCA
- Develop our statement of investment policies and objectives (SIPO) to reflect the FMCA and the Financial Markets Authority’s (FMA’s) guidelines
- Prepare a product disclosure statement (PDS) for new members. This replaces the current investment statement and prospectus
- Put our policies and official documents on the online Disclose Register:
<http://www.business.govt.nz/disclose>

Smartshares is working on the above actions required above to meet the FMCA compliance requirements of the FMCA.

When will the transition take place?

The Smartshares ETF(s) in which you are invested will transition to the FMCA on Friday 16 September 2016, from which time the requirements of the FMCA will apply to the transitioned ETFs.

Who will be Smartshares’ supervisor and custodian?

The FMCA sees the current role of the trustee divided into two. The manager becomes formally responsible for the fiduciary obligations of looking after investors’ interests, and the supervisor has the fiduciary responsibility for overseeing the manager’s activities, to make sure that the manager does its job.

When Smartshares moves to the FMCA we will appoint Public Trust as our supervisor. You can contact the supervisor here:

Postal Address	PO Box 31543 Lower Hutt 5040
Street Address	40, 42 Queens Drive Lower Hutt 5010
Email	CTS.Enquiry@PublicTrust.co.nz
Phone	(09) 985 5300

Smartshares will continue to use its current independent custodians, BNP Paribas Fund Services Australasia Pty Limited and JB Were (NZ) Nominees Limited to hold the ETF assets for the funds in the Smartshares ETFs. You can contact the custodians here:

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

Postal Address	PO Box 3299, Wellington
Street Address	Level 18, State Insurance Tower, 1 Willis Street



JB Were (NZ) Nominees Limited

Postal Address	PO Box 887, Auckland 1001
Street Address	Level 38, Vero Centre, 48 Shortland Street

What is a trust deed and where do I find it?

The provisions of the trust deed under the FMCA also change. The changes do not affect your contributions or benefits, and the new trust deed will be available on the Smartshares website and the Disclose Register on 16 September 2016. You can also request a copy of the revised trust deed, free of charge, by emailing us at smartshares@smartshares.co.nz.

What is a Statement of Investment Policies and Objectives (SIPO)?

Under the FMCA, our current investment policies and the related provisions of the prospectus must be collated under a formal SIPO. The SIPO must also be consistent with the FMA's guidelines. The SIPO for the Smartshares ETFs will be available on the Disclose Register and our website, on 16 September 2016.

What is a Product Disclosure Statement (PDS)?

A focus of the FMCA is to simplify and standardise information provided to investors, so investors can easily compare the products and services provided by different financial institutions. This means all current prospectuses and investment statements will be replaced by a shorter document called a PDS. On Friday 16 September, a PDS, for the ETF(s) that you hold and a statement of investment policies and objectives, will be available on our website (www.smartshares.co.nz).

