



29 July 2020

## Other Material Information

Lifetime Income Fund

This document has been prepared to meet the requirements of section 57(1)(b)(ii) of the Financial Markets Conduct Act 2013 and clause 52 of Schedule 4 of the Financial Markets Conduct Regulations 2014 for the Lifetime Income Fund. All legislation referred to in this document can be viewed at [legislation.govt.nz](http://legislation.govt.nz)

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## 1. Introduction

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This document contains additional information about the Lifetime Income Fund (**Fund**) to help you make your investment decision. This document should be read with the Fund's Product Disclosure Statement (**PDS**) and words defined in the PDS will have the same meaning in this document. You must be given a copy of the PDS before we can accept your application to invest in the Fund.

This document, the PDS, the Statement of Investment Policy and Objectives (**SIPO**), the Fund's Trust Deed (**Trust Deed**) and other useful information about this offer of units in the Fund can be found on the Disclose Register at **disclose-register.companiesoffice.govt.nz**

## 2. Who is Involved

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### Manager of the Fund

Lifetime Asset Management Limited (**Lifetime, we, our or us**) is the manager of the Fund. Our ultimate holding company is Retirement Income Group Limited, a company incorporated in New Zealand. Our address is:

Lifetime Asset Management Limited  
Level 3, 120 Featherston Street  
Wellington Central  
Wellington 6011

The current names of our directors may be obtained from the Companies Office at **disclose-register.companiesoffice.govt.nz** Our directors may change from time to time.

We have been granted a licence under section 394 of the Financial Markets Conduct Act 2013 (**FMCA**) by the Financial Markets Authority (**FMA**) to act as a manager in respect of managed investment schemes. We are responsible for the following functions:

- Offer and issue of units in the Fund;
- Managing the Fund and its investments; and
- Administering the Fund.

We, in the role as manager, are responsible for the administration of the Fund. We may delegate the performance of any of our powers, authorities, functions or discretions to an officer or an employee or any other person we nominate, including an associated person, in accordance with the terms of the Trust Deed. We remain liable for the act or omission of those delegates. We can also appoint investment managers, administration managers and other experts (which can be associated persons).

We also manage the investments of the Fund and may, subject to compliance with the SIPO, give whatever directions are considered necessary in that regard.

For more information on our powers, duties and responsibilities please see the Trust Deed available on the Scheme Register at **disclose-register.companiesoffice.govt.nz**

### Underlying investments

The Fund is invested in the following underlying investments:

Underlying investment manager	Address of the underlying investment manager	Underlying investment fund
Vanguard Investments Australia Limited	Freshwater Place, 2 Southbank Blvd, Southbank VIC 3006, Australia	<ul style="list-style-type: none"> <li>• Vanguard Australian Shares Index Fund</li> <li>• Vanguard International Shares Select Exclusions Index Fund</li> <li>• Vanguard International Fixed Interest Index Fund (Hedged)</li> <li>• Vanguard Australian Fixed Interest Index Fund</li> </ul>
ANZ New Zealand Investments Limited	23-29 Albert Street, Auckland Central, Auckland 1010	<ul style="list-style-type: none"> <li>• ANZ 'On Call' Cash Account</li> </ul>

Underlying investment manager	Address of the underlying investment manager	Underlying investment fund
Harbour Asset Management Limited	Level 16, 171 Featherston Street, Wellington Central, Wellington 6011	Harbour Enhanced Cash Fund
Milliman Pty Limited	32 Walker St North Sydney NSW 2060 Australia	Currency Hedge (FX forwards)

### Underlying property fund

It is intended that Lifetime will establish and manage an underlying property fund in late 2020 into which the Fund will invest to gain exposure to unlisted New Zealand residential property (Unlisted Property) assets.

We have contracted out the active risk management of the Fund to Milliman Pty Limited (**Milliman**). The Risk Management Overlay used by Milliman is an institutional quality risk management strategy that seeks to stabilise portfolio volatility below a target level, capture growth in up markets, and defend against losses during major market declines.

The address of Milliman is:

#### Milliman Pty Ltd

32 Walker St  
North Sydney NSW 2060  
Australia

Hedging of offshore investments to manage foreign exchange risks will be performed by Milliman and by trading banks. Hedging services are provided through cash and currency forward contracts. No gearing or leverage (buying assets with borrowed funds anticipating that borrowing costs will be less than profits) of the Fund and investment objectives is permitted through hedging instruments.

We're able to change the Fund's investment into underlying investment funds, or appoint new underlying fund investment managers at any time, subject the Fund's SIPO.



### **Administration manager**

We've delegated the administration functions of the Fund to MMC Limited (**MMC**).

The address of MMC is:

#### **MMC Limited**

Level 13, 23 Customs Street East

Auckland Central

Auckland 1010

The current names of MMC's directors may be obtained from the Companies Office at **[disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz)** MMC's directors may change from time to time.

MMC is responsible for the following functions:

- Investor record keeping and registry;
- Unit pricing;
- Fund accounting;
- Verification of identity; and
- Valuation services.

See [mmcnz.co.nz](https://mmcnz.co.nz) for more details.

### **Supervisor**

Public Trust is the supervisor of the Fund. Public Trust is a statutory corporation and Crown Entity established and constituted in New Zealand on 1 March 2002 under the Public Trust Act 2001. The address of Public Trust is:

#### **Public Trust**

Level 9, 34 Shortland Street

Auckland 1010

The board members of Public Trust may change from time to time. The current names of Public Trust's board members may be obtained from Public Trust at [publictrust.co.nz](https://publictrust.co.nz)

Public Trust has been granted a licence under section 16(1) of the Financial Markets Supervisors Act 2011 (**FMSA**) to act as a supervisor in respect of debt securities, KiwiSaver schemes, non-fund schemes, specified managed funds, superannuation schemes, and as a statutory supervisor in respect of retirement villages for a term expiring on 16 January 2023.

A copy of Public Trust's licence, including the conditions on the licence, can be obtained at [fma.govt.nz](http://fma.govt.nz)

Public Trust is responsible for the following functions:

- supervising the performance by Lifetime of its functions and issuer obligations;
- supervising the financial position of Lifetime and the Fund to ascertain that they are adequate;
- acting on behalf of investors in relation to Lifetime and certain other matters relating to the Fund;
- reporting to the FMA any contravention or likely contravention of Lifetime of an issuer obligation;
- holding the Fund's property, or ensuring that it is held, in accordance with the FMCA; and
- performing or exercising any other functions, powers, and duties conferred or imposed on Public Trust by or under the FMCA, FMSA and the Trust Deed.

Public Trust may also appoint and delegate certain functions, including a custodian for the Fund.

For more information on Public Trust's role and responsibilities, powers and obligations please see the Trust Deed available on the offer register at **[disclose-register.companiesoffice.govt.nz](http://disclose-register.companiesoffice.govt.nz)**

#### **Auditor, custodian, actuary and solicitor**

##### Auditors

PwC is the Auditor of the Fund. PwC is a registered audit provider under section 87 of the Auditor Regulation Act 2011.

Custodian

Public Trust Lifetime Income Nominees Limited is a wholly owned subsidiary of Public Trust. It acts as the custodian, and holds the Fund's property in its name.

Actuary

Charles Hett is the actuary for Lifetime Income Limited, who provides the group insurance policy to the Fund.

Solicitors

Our solicitors are DLA Piper New Zealand.

**Material contracts**

For copies of the material contracts that are relevant to the Fund (if any) please see the Offer Register at **[disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz)**



### 3. Income Rates

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An Income Rate is used to calculate your Regular Income.

The Income Rates you will receive depends upon the date when you initially invest and your age when you start Regular Income payments.

The Income Rates themselves are set and calculated, based on a number of factors that include your age, estimated mortality, expected investment returns, and regulatory capital requirements. Accordingly, the Income Rates on offer will change from time to time.

The current Income Rates for each age that will apply from 10 March 2020 until any change are as follows:

Age at first Regular Income payment	Income Rate
60	3.10%
61	3.20%
62	3.30%
63	3.40%
64	3.50%
65	3.60%
66	3.70%
67	3.80%
68	3.90%
69	4.00%
70	4.10%
71	4.20%
72	4.30%
73	4.40%
74	4.50%
75	4.60%
76	4.85%
77	5.15%
78	5.45%
79	5.75%
80	6.00%
81	6.30%
82	6.60%

83	6.90%
84	7.20%
85	7.50%
86	7.90%
87	8.30%
88	8.70%
89	9.10%
90	9.50%

#### 4. Key Terms

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##### **Changing the Trust Deed and SIPO**

We're able to make changes to the Trust Deed and the SIPO in accordance with relevant law and the Trust Deed. We can't change the Trust Deed where to do so would have a material adverse effect on investors. Where required by relevant law or by the Trust Deed, we'll notify you of material changes to either document.

##### **Supervisor's Covenants**

In the Trust Deed, the supervisor gives certain covenants in favour of investors, including that it will:

- act on behalf of investors in relation to Lifetime, our obligations under the FMCA and the Trust Deed and if we are in breach of the FMCA;
- supervise the management of the Funds and the financial position of Lifetime and the Fund; and
- perform its powers and duties imposed on it by relevant law.

Neither we, nor the supervisor (or any person) guarantee your investment in the Fund.

##### **Removal and Retirement of the Supervisor**

The supervisor may retire at any time by giving us three months' notice subject to the appointment of a new supervisor and the transfer to the new supervisor of the assets of the Fund. Where the supervisor retires, we have the power to appoint a new supervisor. If we fail to do so, the investors of the Fund may do so by special resolution. Any supervisor must be licensed under the FMSA.

## **Our Powers and Obligations**

In addition to the statutory functions (see 'Manager of the Fund', above), we have broad discretions in respect of the management of the Fund, including managing the assets of the Fund, making investment decisions, repurchasing or causing the redemption of units and fixing dates for valuations and distributions.

We're obliged to ensure that the Fund is properly and efficiently operated, that the assets of the Fund are properly managed and supervised, that any requested information is made available to the supervisor, that investor meetings are convened, and money is paid in accordance with the Trust Deed and the FMCA.

We may (with the prior knowledge of the supervisor) delegate all or any of the powers, authorities and discretions we can exercise under the Trust Deed. However, this ability to delegate does not affect our liability for the performance of those functions.

In managing the Fund, we:

- must act honestly, and in the best interests of investors and treat investors equitably;
- can't use information acquired as manager for improper advantage, or to cause detriment to investors;
- must act as would a prudent manager of similar investment funds; and
- carry out our functions in accordance with the Trust Deed and FMCA obligations.

## **Powers relating to the PIE status of the Fund**

The Fund is a portfolio investment entity (**PIE**). We have a wide range of discretions to operate the Fund as a PIE including:

- discretions relating to the calculation of tax;
- adjusting distributions to you or redeeming your units to meet your liability for tax; and
- taking all steps necessary to ensure the Fund meets the PIE eligibility requirements, including:

- rejecting applications for units and transfers of units if and to the extent necessary to ensure that the maximum investor interests requirement under the Income Tax Act 2007 is not exceeded; or
- if your unit holding exceeds the maximum investor interests requirement, selling, redeeming or repurchasing units.

We'll let you know about a breach of any maximum investor interests requirement and give you a reasonable opportunity to remedy that breach (provided there is time to remedy the breach under the relevant tax legislation). The proceeds from any sale, redemption or repurchase carried out by us to remedy such a breach (less any costs and expenses incurred by us in respect of the same) will be paid to you, and neither the manager nor the supervisor will be liable for any loss that you may incur under or in connection with any such sale, redemption or repurchase.

### **Provision of information**

We may ask you to provide information to enable us to determine whether the Fund continues to meet the PIE eligibility requirements. We will ask you to get that information to us promptly.

### **Borrowing**

Under the Trust Deed, borrowing up to 25% of the value of the Fund is permitted. However, it is not currently expected that any borrowing will occur.

### **Valuation**

The current value of the Fund is calculated by us by taking the value of the assets of the Fund and deducting any liabilities, charges incurred in holding the assets, any money held in respect of applications not yet accepted (or those which have been rejected) and any money held in respect of cancelled units.

The current value of the Fund is calculated on each business day.

In determining the value of the underlying investment fund assets of the Fund, we'll rely on the current unit price of any other underlying investment fund into which the Fund invests (as quoted, published or otherwise determined by it) as the value of the Fund's investment in that other investment fund.

In determining the value of the Fund's investment in any Unlisted Property (which is intended to be through an underlying fund to be established by the Manager), we'll rely on the valuation undertaken by an independent registered valuer appointed by the Manager. Valuations by the independent registered valuer will be undertaken at least every six months.

We may value the Fund's assets more than once on any business day if special circumstances exist. In such cases, we are required to certify to the supervisor that, in our reasonable opinion, special circumstances existed which require or justify more than one valuation of the assets on the relevant business day.

We'll ascertain the current value of the Fund and the value of the assets of the Fund on a consistently applied basis accepted as being appropriate by the supervisor. We can alter that basis and the application, provided the supervisor approves.

### **Suspension of Withdrawals**

We may, in certain circumstances, suspend the obligation to redeem units by issuing a withdrawal suspension notice (for instance, where we believe, in good faith, that it is not practicable or would be materially prejudicial to investors' interests for the supervisor to realise investments or borrow to permit redemptions – this could be because of market or asset conditions or other circumstances). Any such suspension would continue until the earlier of a date: specified by us to investors; agreed with the supervisor; or approved by a special resolution of investors.

### **Records and Financial Statements**

We must keep proper accounting records in respect of the Fund. The Custodian will provide us with any information held by it that we require in order to keep those records. Once prepared, we'll forward the audited financial statements to the supervisor and to every investor within the required timeframe.

### **Registers**

We're required to keep a register of investors for the Fund in the form and manner required by the FMCA (the Unit Register). The Unit Register must be kept in New Zealand, and may be kept in electronic form so long as a printout of the Unit Register is available to the supervisor from time to time. The Unit Register shall be available

for inspection in accordance with the FMCA. We're required to have the Unit Register audited annually.

### **Meetings**

The Trust Deed provides for unitholder meetings. We may (and will on receipt of a written request from the supervisor, or a written request from one tenth in number of the investors in the Fund, or of and investor or investors holding at least 5% of the units of the Fund) convene a meeting of the investors of the Fund. We must give investors 15 business days' notice of the meeting.

The quorum for meetings for any business other than requiring a special resolution is at least two investors present in person or by their proxies or attorney or by authorised representative or electronically, and who hold not less than 10% of the number of units on issue in the Fund. The quorum for a meeting of Investors if a special resolution is to be put to the meeting is investors present in person or by their or proxies or attorney or by authorised representative or electronically holding a combined value of not less than 25% of the value of units on issue in the Fund.

A 'special resolution' is a resolution approved by investors holding units with a combined value of no less than 75% of the value of the units held by those investors who are entitled to vote and who vote on the question and includes any resolution relating to a matter that is required by the FMCA, the Financial Markets Conduct Regulations 2014 (**FMCR**) or the Trust Deed to be done by way of special resolution.

A meeting of investors of the Fund can give directions to the supervisor if those directions are consistent with the Trust Deed and relevant law including the FMCA and the directions are given by a special resolution passed at that meeting. The supervisor isn't liable for anything done, or omitted to be done, in good faith in giving effect to such a direction. The supervisor may also, at its discretion, apply to the High Court under relevant law including the FMCA for an order in respect of any direction given.

The supervisor will nominate a chairperson to chair each meeting.

### **Amendments to the Trust Deed**

Subject to the FMCA and the provisions of the Trust Deed, we may agree with the supervisor to amend the Trust Deed.

### **Winding Up**

If the Fund is wound up, the supervisor must sell the Fund's assets and (after providing for any amount necessary to meet all claims and liabilities (including fees)), will distribute the balance to investors in proportion to their holdings of units at the time of distribution. The amount distributed to you on winding up may be adjusted to reflect the Fund's PIE income tax liability (if any), on income attributed to investors. Any establishment costs incurred in setting up the Fund would not be recovered from investors.

### **Indemnities**

Each investor indemnifies the supervisor and Lifetime if the value of the investor's units is not sufficient to meet any liability for tax payable by the Fund, Lifetime or the supervisor and that is determined by the supervisor or Lifetime to be attributable to the investor.

## **5. Joint Investment**

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### **Joint investment**

Investors who are married, in a civil union or a de facto relationship (or a relationship determined by Lifetime to be similar in nature to any of those relationships) may apply to Lifetime to have their investment held jointly.

Lifetime is not obliged to accept joint investments but will consider applications taking into account factors which include underwriting requirements.

To be eligible to apply for a joint holding, both persons in the relationship must be resident in New Zealand at the time of making the investment and under the age of 90 years old unless Lifetime otherwise determines. While there is no minimum age for making an investment, both persons must be at least 60 years of age before commencing Regular Income payments, and their age differential cannot be more than ten years (in each case unless Lifetime otherwise determines). If accepted,



joint holders will be charged an annual premium of 1.75% of their Protected Income Base. Please refer to the fees example below.

The Income Rate for the couple will be based on the age of the younger investor of the couple.

For the purposes of calculating the Fund's tax, joint holders will generally be treated as a single investor and will be taxed at a rate equal to the higher of the Prescribed Investor Rate (**PIR**) rates of the couple. Lifetime may, at its discretion, apply such other treatment to joint holders for tax purposes as it thinks fit including treating the joint holders as separate investors (in equal shares).

Lifetime will treat the first registered holding as the primary investor who will be entitled to give and receive notices and vote at any meeting of unit holders (when both holders are present).

In the event of the death of one of the joint holders, the survivor will continue to receive the Regular Income. If the death occurs within the first 12 months of investing in the Fund, we will permit the survivor to revert to the single premium cost (but in other cases the joint premium will apply).

In the event of a separation of the joint holders, Lifetime will (subject to any court order) act on the reasonable instructions of the joint holders.

Holding an investment like this jointly will have different implications for different investors, including relating to any relationship property division, and the application of insolvency laws if one holder were to be made bankrupt. We recommend you seek advice from an authorised financial adviser if you are considering having your investment held jointly.

### **Example of how fees and rights apply to joint investors**

Susan is aged 60 and her husband John is aged 65. They apply to Lifetime to have their initial \$50,000 investment in the Fund to be held jointly. Lifetime accepts John and Susan's request and they elect to start receiving their Regular Income immediately. John and Susan's Protected Income Base is established and set at \$50,000. A buy spread of \$62.50 (0.125% of \$50,000) is included into the unit price

that they pay for their investment. This brings the starting value of their investment to about \$49,937.50.

They are also charged management and administration fees, which work out to \$634.21 (1.27% of \$49,937.50). These fees might be more or less if their account balance has increased or decreased over the year.

Over the next year, John and Susan pay a lifetime guarantee premium of \$875.00 (Protected Income Base \$50,000 x 1.75% = \$875.00).

Estimated total fees for the first year	
Individual action fees	\$ 62.50
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Fund charges	\$634.21
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Other charges	\$875.00
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Total:	\$1,571.71
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The Income Rate will be based on Susan's age (60) as she is the younger person in the relationship. As the youngest she will also be registered first on the Unit Register.

Because Susan is registered first on the register entry, all communications in respect of the Fund will be addressed to Susan and Lifetime will only accept notices from her as the primary investor. If John and Susan were both to attend a meeting in respect of the Fund, only Susan would be able to vote in respect of their interest. However, if Susan was not present at the meeting, John may vote in respect of their joint holding interest.

Susan has the higher PIR out of her and John so her PIR rate is used for the purposes of calculating the Fund's tax.

See the latest fund update for an example of the actual returns and fees investors were charged over the past year.

## 6. Insurance

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### Overview

The Insured Income Phase of your Regular Income is funded by payments from Lifetime Income Limited to the Fund under and subject to the terms and conditions of the group insurance policy. The Insured Income Phase of your Regular Income therefore depends on Lifetime Income Limited making these payments. This in turn depends on:

- Lifetime Income Limited being obliged to make the payments under group insurance policy. The group insurance policy contains a number of exclusions and conditions of cover. It gives Lifetime Income Limited the right to vary the premiums for both new and existing investors. It also gives Lifetime Income Limited the right to cancel the policy in certain circumstances;
- Lifetime Income Limited being able to make payments it is obliged to make under the group insurance policy. Lifetime Income Limited is a separate legal entity and is solely responsible for all obligations under the policy. Lifetime Income Limited's ability to make these payments is based on its financial strength and claims-paying ability. Although we have duties under the Trust Deed to monitor Lifetime Income Limited's compliance with its obligations under the group insurance policy and report to the supervisor at regular intervals, neither we nor the supervisor are responsible for Lifetime Income Limited's performance of its obligations.

Lifetime Income Limited is required to have a Financial Strength Rating (**FSR**) given by an approved ratings agency. On 13 December 2019, A. M. Best upgraded Lifetime Income Limited's ratings to the following:

- Financial Strength Rating of B
- Long-Term Issuer Credit Rating of bb

The outlook of these credit ratings is stable. The rating upgrades reflect an improvement in A.M. Best's assessment of Lifetime Income Limited's business profile now that it has been operating for several years.

The rating scales are showing in following tables. A more detailed explanation of the ratings and scales is available at

<http://www3.ambest.com/ambv/ratingmethodology/OpenPDF.aspx?ri=1278>

You can also view Lifetime Income Limited's current solvency and FSR at [lifetimeincome.co.nz](http://lifetimeincome.co.nz)

#### A.M. Best FSR Scale

A++, A+	Superior
A, A-	Excellent
B++, B+	Good
B, B-	Fair
C++, C+	Marginal
C, C-	Weak
D	Poor
E	Under Regulator Supervision
F	In Liquidation

#### A.M. Best Long-Term Issuer Credit Rating Scale

aaa, aaa-	Exceptional
aa, aa+ /aa-	Superior
a, a+ / a-	Excellent
bbb, bbb+ / bbb-	Good
bb, bb+ / bb-	Fair
b, b+ / b-	Marginal
ccc, ccc+ / ccc-	Weak

## A.M. Best Long-Term Issuer Credit Rating Scale

Cc	Very weak
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c, c-	Poor
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### **Group insurance policy**

You can find the group insurance policy on the Offer Register at **[disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz)**

### **Insurer**

Lifetime Income Limited is a life insurance company licensed by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010.

As a licensed life insurance company, Lifetime Income Limited is subject to prudential and other regulatory requirements designed to minimise the risk of Lifetime Income Limited failing. Some key requirements are summarised below:

- Lifetime Income Limited is New Zealand's first approved provider of variable annuity business under the Reserve Bank of New Zealand's Standard for Variable Annuity Business 2015. Under the Standard, Lifetime Income Limited must submit an independent review of its risk management to the Reserve Bank of New Zealand at least every three years;
- Lifetime Income Limited must meet minimum solvency requirements in accordance with the RBNZ's solvency standards on a continuous basis with six monthly reporting and disclosure obligations to the Reserve Bank of New Zealand;
- Lifetime Income Limited must maintain a minimum level of capital. This must be in excess of either \$5,000,000 or the (risk-based) calculated minimum solvency capital requirement - whichever is higher; and
- Lifetime Income Limited is required to operate at least one statutory fund and notify policyholders which statutory fund their life insurance policy is referable to. The policyholder is Public Trust as supervisor of the Fund.

## 7. Tax

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### **Tax is your responsibility**

You're responsible for any taxation liability you may incur as an investor in a Fund. Tax legislation and rates of tax are subject to change and any change could have an impact on the Fund's return and yours. The impact of taxation may vary depending on your individual circumstances. It's important to seek professional taxation advice before you invest or deal with your investment in any way as the taxation treatment of your investment will be specific to your circumstances and to the nature of your investment.

### **Portfolio investment entity**

We've obtained a product ruling from Inland Revenue Department (**IRD**) setting out the tax treatment of investing in the Fund. The ruling is public and subject to the conditions, assumptions and material facts set out in the ruling. The ruling is binding on IRD for the term of the ruling which expires on 31 March 2022. However, IRD would not be bound to interpret the tax legislation in accordance with the ruling if there were to be a legislative change enacted that materially affected its interpretation of the law set out in the ruling.

Under the ruling the Fund will be taxed as a PIE. The Fund will pay tax on behalf of investors as set out below. Investors will receive Regular Income payments as tax-free income. First, as tax-paid income from a PIE (during the Protected Income Phase) and then as a tax-free annuity (during the Insured Income Phase).

### **Prescribed investor rates**

Your PIR is based on your taxable income and attributable PIE income in either of the two tax years preceding the current tax year (with each tax year commencing on 1 April and ending the following 31 March). You are responsible for providing your PIR for particular tax return period to the Fund. We will apply the PIR you tell us, unless we are directed by Inland Revenue to apply a different rate. We'll remind you to check your PIR annually. You must notify us as soon as practicable if your PIR changes.

There are three tax rates available for New Zealand tax resident individuals who provide their IRD number to us. These rates are 10.5%, 17.5% and 28%. The eligibility criteria are as follows.

PIR	Eligibility criteria
10.5%	New Zealand resident individuals who have given us their Inland Revenue Department number and who derived in either of the last two income years preceding the current tax year \$14,000 or less in taxable income (excluding PIE income) and \$48,000 or less in taxable income and PIE income combined.
17.5%	New Zealand resident individuals who do not qualify for the 10.5% PIR but who have provided their Inland Revenue Department number to us and who derived in either of the last two income years preceding the current tax year \$48,000 or less of taxable income (excluding PIE income) and \$70,000 or less in taxable income and PIE income combined.
28%	New Zealand tax resident members who don't meet the criteria for a 10.5% or 17.5% PIR or the default rate for investors who don't provide their IRD number to the Fund and/or don't elect a PIR.

If you're eligible to elect a lower PIR and notify a higher PIR to the Fund in error, or fail to advise a change to a lower PIR, IRD will not refund any excess tax paid.

If you notify a lower PIR to the Fund in error, or don't advise a change to a higher PIR, you may be required to file an income tax return on the shortfall for the relevant tax year, and tax may be payable at your marginal tax rate plus any interest and penalties. If the default rate or the advised PIR is higher than the correct PIR, then any additional tax paid by the Scheme on your behalf may reduce your income tax liability for that income year, and may give rise to a tax refund. .

Each year, we will ask you to reconfirm your PIR. You should review your rate each year to ensure it is correct and notify us of any changes. For more information about PIRs and to determine your correct PIR rate please refer to [ird.govt.nz/toii/pir](http://ird.govt.nz/toii/pir) or contact your professional tax adviser.



### **Hedging taxation treatment**

The Fund hedges all currency exposure 100% back to New Zealand dollars. The process of hedging gives rise to losses and gains which are in the main offset by movements in underlying asset values. This helps to ensure investors receive the full benefits (or loss) of the underlying investments in New Zealand dollars.

New Zealand law allows us to apply different tax treatments under the Foreign Investment Fund rules. These are referred to as the comparative value (**CV**) and the fair dividend rate (**FDR**) methods. Any hedging gains are taxable and losses are tax deductible when using CV. We apply the method that best reflects the interests of our investors.

## **8. Risks**

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All investments carry a degree of risk and no level of return is promised or guaranteed. The value of your units in the Funds will go up and down, so it is possible that you could receive less from the Fund than you invest, particularly if you invest for a short period of time and market conditions have been poor.

The PDS sets out the material risks to your investment in the Fund. In addition, the following risks may mean that you receive less than you invest in the Fund (especially if you make a withdrawal from the Fund).

Risk	Description of the risk
Valuation risk	The Fund's unit prices are based on the latest market information. For securities or stocks that are illiquid or trade infrequently this pricing may not fully reflect the price available to either buyers or sellers. Accordingly, there is a risk that the quoted unit price may change when these assets are revalued by the market following a transaction.

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Risk	Description of the risk
Operational risk	The Fund may be exposed to operational risks that result from external events or failure of internal processes, people and systems. These risks include technology risk (including business systems failure), human error or failure, fraud, non-compliance with legal and regulatory obligations, counter-party performance under outsourcing arrangements, legal risk, data integrity risk, security risk and external events (including pandemics).
Suspension of redemptions	The Fund allows redemption of units, subject to certain procedural requirements, including our right under the Trust Deed to delay and/or suspend redemptions. During normal operational circumstances, redemptions can be met out of cash held by the Fund. However, if the value of redemptions significantly outweighs the value of subscriptions, the Fund may not be able to meet withdrawal requests out of cash reserves and will be reliant on selling or redeeming (whichever is relevant) some of the Fund's assets to enable it to meet the repayment requests. These Fund assets may not be immediately realisable.
Lifetime Income Limited is a related party	Lifetime Income Limited and Lifetime are owned by the same parent company – Retirement Income Group Limited. The FMCA's restrictions on dealings with related parties apply and we will therefore seek to ensure the terms of the group insurance policy and the premium are on arm's-length terms or better.

Risk	Description of the risk
Risk of loss of PIE status	The eligibility requirements to maintain PIE status pose a risk. Although we have mechanisms available to manage compliance with the PIE eligibility requirements, there remains a risk that the Fund could lose PIE status if there is a breach of those requirements and we do not become aware of the breach in time to correct it. This risk, if manifested, may have an adverse effect on the tax position of the Fund and/ or you. In particular, distributions made by the Fund to you would be taxable for you (subject to exceptions for returns of subscription amounts) if the Fund lost PIE status.
Wrong PIR risk	If you provide a PIR that is lower than the correct PIR you will be liable for any tax shortfall (and any interest and penalties) and must file a tax return. If you provide a PIR that is higher than your correct PIR, or you do not provide a PIR and so are subject to the default rate of 28%, you will not be able to claim back the excess tax paid.

## 9. Methodology for Calculation of the Risk Indicator

We have adopted an alternative methodology for calculating the Fund's risk indicator as provided by clause 8 of Schedule 4 of the FMCR.

This alternative methodology for a total return fund follows the 'FMA's Guidance note on risk indicators and description of managed funds' (November 2015)<sup>1</sup> and so is based on the 'Committee of European Securities Regulators guidelines on the methodology for the calculation of the synthetic risk and reward indicator in the key investor information document' (CESR/10-673, 1 July 2010)<sup>2</sup>.

In summary, when calculating the risk category disclosed in the most recent PDS because the Fund includes a risk management overlay it is a total return fund and so

<sup>1</sup> <https://fma.govt.nz/assets/Guidance/151124-Guidance-note-on-risk-indicators-and-description-of-managed-funds.pdf>

<sup>2</sup> [https://www.cssf.lu/fileadmin/files/Metier\\_OPC/Doc\\_europeenne/CESR\\_10\\_673.pdf](https://www.cssf.lu/fileadmin/files/Metier_OPC/Doc_europeenne/CESR_10_673.pdf)

we adopted the methodology for total return funds set out in Box 6 of CESR/10-673. Following this methodology, we took the greater of:

- the historical annualised volatility of the market indices against which the Fund performance is benchmarked, which came to 4.89%; or
- the Funds average annualised volatility target of 6.00%.

We then matched the greater 6.00% figure against the corresponding risk class table in the CESR/10- 673 and risk category table the FMCR. In both cases, this resulted in an indicated risk class or risk category of 4 (four).

The risk indicator calculation does not take into account the insurance cover that supports the Insured Income Phase of your Regular Income. We consider this insurance cover is a significant feature of the Fund. The risk indicator should be read with this in mind.

## **10. Conflicts of Interest**

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Conflicts of interest may arise with regard to services that are, or that may be, provided by related parties of ourselves.

The Trust Deed governing the operation of the Fund includes provisions that generally prevent us, as Manager, from entering into arrangements with a related party other than when transactions are completed on an arm's length basis. In addition, both we and the Supervisor must, at all times, act in the best interests of Investors when performing any duties in relation to the Fund.

### **Related party investment**

The authorised investments for the Fund include investing in the assets via an underlying fund. Currently, the Fund primarily gains its exposure to the various investment assets by investing in underlying funds managed by third parties. The Manager intends to establish an underlying property fund into which the Fund will invest to gain exposure to Unlisted Property. This underlying property fund will be specifically developed to support the provision of income in retirement and investment into the underlying property fund will be in accordance with and on terms consistent with our conflicts of interest policy and the Trust Deed for the Fund.

### **Related party insurer**

Lifetime and Lifetime Income Limited have the same ultimate parent company, Retirement Income Group Limited. This means we're ultimately owned and controlled by the same group of people.

Currently, Lifetime Income Limited is the only insurer that offers a variable life annuity to support the Insured Income Phase of your Regular Income. It was established specifically for this purpose.

### **Controls on conflicts of interest**

The FMCA imposes statutory controls on conflicts of interest:

- a related party transaction may only be done if the details are notified to Public Trust and we:
  - can certify the transaction (or series of transactions) is 'permitted' on the basis that it comprises investment into a regulated investment fund in New Zealand or Australia, or the transaction is on arm's length; or
  - obtain Public Trust's consent on the basis that it is in the best interests of investors, or contingent on special resolution approval by investors.
- as manager of the Fund, we are subject to statutory duties in the performance of our functions as manager, including the requirement to act honestly and in the best interests of investors;
- where we contract out our functions to other parties, such as investment management, we must ensure the persons to whom we contract those functions perform them to the same standard and subject to the same duties and restrictions as if we were performing them ourselves. These include the statutory duties referred to above. We must also monitor the performance of that function;
- the investment managers of the underlying funds into which the Fund invests must comply with a professional standard of care i.e. in exercising any powers, or performing any duties as investment manager, they must exercise the care, diligence, and skill that a prudent person engaged in the profession of investment management would exercise in the same circumstances.

## **11. Fees and Expenses**

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### **Management fee**

We're paid a management fee for acting as manager of the Fund. This forms part of the total annual fund charge disclosed in the PDS. The Trust Deed allows us to change those management fees from time to time subject to the terms of the Trust Deed. We may, in our discretion, charge an investor or certain classes of investors lower management fees than as currently disclosed in the PDS.

### **Supervisor's fee**

The supervisor is entitled to be paid, by way of remuneration for its services, a fee. The supervisor's fee is determined on the basis of a scale agreed from time to time between us and the supervisor.

### **Insurance premiums**

You pay Lifetime Income Limited a premium for the cover provided under the group insurance policy. The current insurance premium is disclosed in the PDS. The premium is calculated daily and deducted monthly from your Fund balance. The premium is not refunded when you make a withdrawal.

Lifetime Income Limited may change the premium in future. Lifetime Income Limited sets the premium based on a variety of factors, including the cost of providing and hedging any payments Lifetime Income Limited makes under the policy and the cost of setting aside capital to meet Reserve Bank of New Zealand solvency requirements. We'll notify you if the premium changes.

### **Buy / Sell spreads**

Buy spreads are added to the unit price on entry to the Fund, and sell spreads are deducted from the unit price on exit from the Fund, as described in more detail in the PDS.

The purpose of buy/sell spreads is to make sure that any transaction costs incurred as a result of an investor entering or leaving a Fund are borne by that investor, and not other investors in the Fund.

Under the Trust Deed, we determine the buy/sell spreads based on what we consider to be a fair amount payable having regard to expected transaction costs. We may change the buy/sell spreads from time to time, and will update the PDS for the Fund if we do so.

### **Expenses**

We and the supervisor are entitled to reimbursement for all reasonable costs and expenses incurred by either of us on behalf of the Fund. These include the costs of preparation of this document and other documents in relation to the offer of the units in the Fund, professional advisers' fees, taxes/duties, costs related to the establishment of the Fund and any changes to it as well as other administration costs.

There's no limit on the amount of reimbursement of expenses to which the Manager and supervisor are entitled. The payment of these expenses is included in the 'total annual fund charges' for which an estimate is provided in the PDS and that will be disclosed in the fund updates and on the register entry on the Offer Register at **[disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz)**

### **Basis of estimates for annual fund charges in PDS**

In determining the total annual fund charges in the PDS, estimates were made for certain fees and costs.

The annual fund charges include a mixture of both fixed and estimated costs and expenses that will be charged to the Fund.

Some of these are calculated as a fixed percentage of the Fund's net asset value (which means the actual amount charged will vary with changes in the Fund's net asset value). These include the fees charged by the managers of the underlying investment funds in which the Fund invests.

Estimated costs and expenses incurred by the manager in the operation of the Fund include subcontracted investment administration, supervisor fees, fees for audit, printing and distribution, regulatory compliance, IT, internal administration manager costs and expenses and other professional service fees. The determination of these fees is based on estimates provided by the Fund's professional service providers,



information disclosed or provided by the underlying investment managers of the funds into which the Fund invests, and our experience with the Fund (including taking into account the actual costs and expenses charged over the most recently completed Fund year (i.e. 1 April to 31 March) and anticipated investment levels in the underlying funds in accordance with the Fund's SIPO.

### Changes to fees

These fees may be varied, or new fees may be imposed, from time to time in accordance with the Trust Deed.

## 12. More Information About Market Indices

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### Where to find more information

The Fund's returns are measured against various market indices as set out in the SIPO. More information about these market indices can be found on the websites pages of the following:

Underlying investment fund	Market index	Website
Harbour Enhanced Cash Fund	S&P/NZX Bank Bills 90-Day Index	<a href="https://us.spindices.com/indices/fixed-income/sp-nzx-bank-bills-90-day-index">https://us.spindices.com/indices/fixed-income/sp-nzx-bank-bills-90-day-index</a>
ANZ 'On Call' Cash Account	Not applicable	
Vanguard Australian Shares Index Fund	S&P/ASX 300 Index	<a href="http://us.spindices.com/indices/equity/sp-asx-300">http://us.spindices.com/indices/equity/sp-asx-300</a>
Vanguard International Shares Select Exclusions Index Fund	MSCI World ex Australia, ex Tobacco, ex Controversial Weapons, ex Nuclear Weapons (with net dividends reinvested) in Australian dollars Index	<a href="https://www.msci.com/indexes">msci.com/indexes</a>
Vanguard Australian Fixed Interest Index Fund	Bloomberg AusBond Composite 0+ Yr Index	<a href="https://www.bloomberg.com/quote/BACM0:IND">bloomberg.com/quote/BACM0:IND</a>

Underlying investment fund	Market index	Website
Vanguard International Fixed Interest Index Fund (Hedged)	Bloomberg Barclays Global Treasury Scaled Index hedged into Australian dollars	www.vanguard.com.au/adviser/products/documents/8260/AU
Milliman Currency Hedge (FX forwards)	Not applicable	

It is intended that the relevant market index for the underlying fund to be established by the Manager for exposure to Unlisted Property will be the S&P/NZX All Real Estate Industry Group Gross with Imputation Index

(<https://us.spindices.com/indices/equity/sp-nzx-all-real-estate-sector#overview>)

### 13. Financial Statements and Auditor's Report

Financial statements for the Fund are available on the Scheme Register at **disclose-register.companiesoffice.govt.nz**

The Fund's financial statements will be audited by a qualified auditor, currently PwC. The auditor's report on the financial statements will accompany the financial statements uploaded to the scheme register each year.

### 14. No Guarantee

Neither we, nor any other person, or the supervisor, guarantees the return of capital and/or the repayment of units to you.



Lifetime Asset Management Limited

[lifetimeincome.co.nz](http://lifetimeincome.co.nz)