

NZ CORE EQUITY TRUST

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

Presented by Smartshares Limited, Manager of the NZ Core Equity Trust

NZ CORE EQUITY TRUST

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NZ CORE EQUITY TRUST

DIRECTORY

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

This is also the address of the registered office.

PRINCIPAL OFFICE OF THE MANAGER
Level 7, Jarden House
21 Queen Street
Auckland 1010
New Zealand

DIRECTORS OF THE MANAGER
Guy R. Elliffe
Mark J. Peterson
A. John Williams
Lindsay M. Wright (Chair)

SUPERVISOR
Public Trust
Level 9, 34 Shortland Street
Auckland 1010
New Zealand

INVESTMENT MANAGER
DFA Australia Limited

SOLICITOR
DLA Piper New Zealand Limited

ADMINISTRATION MANAGER AND CUSTODIAN
BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

AUDITOR
KPMG

CORRESPONDENCE

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

NZ CORE EQUITY TRUST

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, 13 September 2019, 18 September 2020 and 20 April 2021 (the 'Trust Deed'). The Trust Deed sets out the terms and conditions in which units in the NZ Core Equity Trust (the 'Fund') are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that the 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.

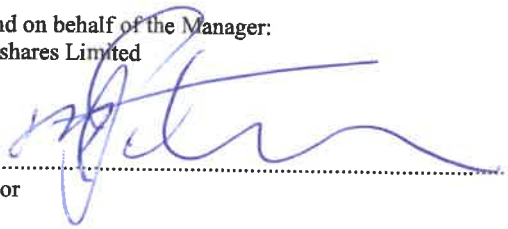
The NZ Core Equity Trust was created by an establishment deed dated 24 June 2014.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are prepared 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 2021, and the results of its financial performance and cash flows for the year ended 31 March 2021 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

The directors of Smartshares Limited authorised the issue of these financial statements on 24 June 2021.

NZ CORE EQUITY TRUST

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 $'000	2020 $'000
INCOME			
Dividend income		2,772	2,794
Net changes in fair value of financial assets		33,103	(10,506)
Foreign exchange loss		-	(2)
Total income		**35,875**	**(7,714)**
EXPENSES			
Fund expenses	5	(594)	(474)
Miscellaneous expenses		(23)	(16)
Total expenses		**(617)**	**(490)**
Profit/(loss) before and after tax		**35,258**	**(8,204)**
Other comprehensive income		-	-
Total comprehensive income/(loss) attributable to unitholders		**35,258**	**(8,204)**

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

NZ CORE EQUITY TRUST

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS
FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 $'000	2020 $'000
Unitholders' funds at beginning of the year		**76,089**	**62,495**
Total comprehensive income/(loss) for the year		**35,258**	**(8,204)**
Subscriptions from unitholders		56,668	45,686
Redemptions by unitholders		(19,206)	(21,096)
Distributions to unitholders		(2,780)	(2,792)
		34,682	**21,798**
Unitholders' funds at the end of the year		**146,029**	**76,089**

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

NZ CORE EQUITY TRUST

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2021

	Note	2021 $'000	2020 $'000
ASSETS			
Cash		1,140	1,347
Receivables	1	1,363	571
Investment in equity securities at fair value through profit or loss		145,547	75,617
TOTAL ASSETS		**148,050**	**77,535**
LIABILITIES			
Payables	2	(2,021)	(1,446)
TOTAL LIABILITIES		**(2,021)**	**(1,446)**
UNITHOLDERS' FUNDS		**146,029**	**76,089**

For and on behalf of the Manager, Smartshares Limited, which authorised the issue of the financial statements on 24 June 2021.

Director

Director

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

NZ CORE EQUITY TRUST

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2021

	2021 $'000	2020 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Dividend income received	2,023	2,135
Sale of investments	12,261	11,885
Cash was applied to:		
Fund expenses paid	(586)	(394)
Purchase of investments	(48,953)	(34,981)
Net cash flows from operating activities	**(35,255)**	**(21,355)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Subscriptions received from unitholders	56,668	45,686
Cash was applied to:		
Redemptions paid to unitholders	(19,104)	(21,116)
Distributions paid to unitholders	(2,516)	(2,558)
Net cash flows from financing activities	**35,048**	**22,012**
Net (decrease)/increase in cash	(207)	657
Cash at beginning of the year	1,347	690
Cash at the end of year	**1,140**	**1,347**
Reconciliation of profit /(loss) after tax to net cash flows from operating activities		
Profit/(loss) after tax	35,258	(8,204)
Payments for the purchase of investments	(48,953)	(34,981)
Proceeds from sale of investments	12,261	11,885
Net changes in fair value of financial assets at fair value through profit or loss	(33,103)	10,506
Foreign exchange loss	-	2
Dividends reinvested	(800)	(529)
Increase/(decrease) in dividends receivable	51	(130)
Increase in fund expenses payable	31	96
Net cash flows from operating activities	**(35,255)**	**(21,355)**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

GENERAL INFORMATION

The NZ Core Equity Trust (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 (the 'FMC Act 2013'). It is offered under a registered managed investment scheme known as the NZ Core Equity Trust. The scheme's registration number is SCH10764. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purposes of the FMC Act 2013.

The Fund was established on 24 June 2014 and commenced operations on 26 June 2014.

The Fund aims to provide unitholders with the benefits of long-term capital growth by gaining exposure to a diversified portfolio of financial products listed in New Zealand, with increased exposure to small companies and value companies relative to a market weighted portfolio. For the purposes of the Fund, value companies are generally considered to be those companies with a low price relative to various financial measures including, but not limited to, book value, cash flow or earnings.

Investment decisions for the Fund are made by the Investment Manager, DFA Australia Limited, which is appointed by the Manager under the Investment Management Agreement. The Investment Manager is the Australian subsidiary of Dimensional Fund Advisors LP (Dimensional LP), which is based in the United States. The Investment Manager invests in accordance with the Statement of Investment Policies.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the years presented, unless otherwise stated.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the Trust Deed and comply with the requirements of the FMCA 2013, New Zealand Generally Accepted Accounting Practice, as defined in Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The accounting policies have been consistently applied throughout the reporting period. 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 the Fund is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

Critical accounting estimates and judgements

The preparation of financial statements requires the use of critical accounting estimates that affect the reported amounts and the application of accounting policies. It also requires the Manager to exercise its judgement in the process of applying the accounting policies of the Fund.

Discussion of the critical accounting estimates and judgements used are included in note 8 on financial instruments at fair value through profit or loss.

Financial assets at fair value through profit or loss

(a) Classification

Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. All investments are measured at fair value through profit or loss.

(b) Recognition and derecognition

Purchases and sales of investments are recognised on trade date – the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are initially recognised at fair value with transaction costs recognised in profit or loss. Subsequent to initial recognition, they are measured at fair value. Gains and losses arising from changes in fair value are recognised in the Statement of Comprehensive Income in the period in which they arise.

(d) Fair value estimation

The fair value of financial instruments is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Fund is the last traded market price.

Financial assets and financial liabilities measured at amortised cost
Financial assets at amortised cost comprise cash and receivables. These include cash at bank, dividends receivable and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method less any provision for impairment losses.

Financial liabilities at amortised cost comprise payables. These include fees and payments for purchase transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or financial liability.

Impairment of financial assets at amortised cost
NZ IFRS 9 requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund only holds receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under NZ IFRS 9 to all its receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at the reporting date.

With the short time period and nature of the receivables, the Fund does not anticipate any expected credit losses to be applicable to these assets.

Taxation
The Fund has elected to become a Portfolio Investment Entity ('PIE') for the purposes of the Income Tax Act 2007. Under current taxation law the Fund pays no income tax on the taxable income of the Fund and all taxable income and associated tax credits applicable are allocated to investors, in proportion to the units they hold on the days when taxable income and credits arise.

The income attributed to each unitholder is taxed at the unitholder's Prescribed Investor Rate ('PIR') which is capped at 28%. The Fund is responsible for deducting tax from each investor's allocation using each investor's PIR and pays the tax to the taxation authorities on behalf of the investor.

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.

Cash
Cash is considered to be cash at banks, net of bank overdrafts. Operating activities in the Statements of Cash Flows include all transactions or events that are not financing activities, including those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities relate to cash subscriptions, redemptions and distributions.

Dividend income
Dividend income is recognised when the right to receive payment is established.

Segment information
The Fund invests solely in New Zealand equities and receives all of its income from these investments.

Changes in accounting standards 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 year.

(b) New accounting standards adopted

A number of new standards are effective from 1 April 2020, but they do not have a material impact on the financial statements of the Funds.

- Amendments to IAS 1 and IAS 8: Definition of Material. Effective for annual periods beginning on or after 1 January 2020.
- Amendments to NZ IFRS 9, NZ IAS 39 and NZ IFRS 7: Interest Rate Benchmark Reform. Effective for annual periods beginning on or after 1 January 2020.

Issued but not yet effective accounting standards

The following amendments to standards or interpretations have been issued but not yet effective for the year ended 31 March 2021 and have not been applied in preparing these financial statements.

- Amendments to NZ IFRS 9, NZ IAS 39, NZ IFRS 7, NZ IFRS 4 and NZ IFRS 16: Interest Rate Benchmark Reform - Phase 2. These amendments shall be applied for annual periods beginning on or after 1 January 2021. Early adoption is permitted.

The adoption of the above amendments to standards in future periods is not expected to have a significant impact on the Funds' financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

1. RECEIVABLES

	2021 $'000	2020 $'000
Dividends receivable	520	571
Receivables from sale of investment securities	843	-
	1,363	**571**

2. PAYABLES

	2021 $'000	2020 $'000
Fund expenses payable	(178)	(147)
Redemptions payable	(102)	-
Payables from purchase of investment securities	(178)	-
Distribution payable	(1,563)	(1,299)
	(2,021)	**(1,446)**

3. DISTRIBUTION PAID TO UNITHOLDERS

Income from investments held is attributed to unitholders on the basis of numbers of units held on the record date of the distribution.

Distributions to unitholders are currently made on a semi-annual basis directly from the Fund within three business days of the record date. The record dates are the last business days of March and September each year.

4. UNITHOLDERS' FUNDS

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund at any time for cash equal to the value of the holder's proportionate share in the Fund's net asset value on the redemption date.

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 unitholders' funds 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.

The relevant movements are shown in the Statement of Changes in Unitholders' Funds.

	2021 '000	2020 '000
Movement in the number of units		
Balance at the beginning of the year	55,049	40,198
Subscriptions received during the year	31,884	27,726
Redemptions made during the year	(10,638)	(12,875)
Units on issue at the end of the year	**76,295**	**55,049**

5. RELATED PARTY TRANSACTIONS

Key management personnel is Smartshares Limited. Aside from the Manager's fees, there were no transactions with key management personnel during the year.

The Manager is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board. The Fund holds shares in NZX Limited as part of the portfolio of securities it invests in.

Payments to the Manager

Management fees are included within fund expenses. The net management fees for the year ended 31 March 2021 amounted to $486,000 (2020: $138,000), with $37,000 (2020: $40,000) of outstanding management fees due to the Manager at the end of the year.

Until 31 March 2020 the Manager received interest earned on cash at banks. Total interest earned on cash at banks for the year ended 31 March 2020 amounted to $7,000.

The subscription and withdrawal fees paid to the Manager for the year ended 31 March 2021 amounted to $73,000 (2020: $47,000).

6. AUDIT FEES

The fee paid for the financial statements audit of the Fund for the year ended 31 March 2021 was $3,623 (2020: $4,500). No non-audit services were provided to the Fund during the year (2020: nil).

7. FINANCIAL RISK MANAGEMENT

The Fund’s activities expose it to a variety of financial risks: market price risk, credit risk and liquidity risk which are described below:

7a. Market price risk

The Fund's equity securities are exposed to market price risk arising from uncertainties about future prices of the financial instruments.

A 10% increase/decrease in equity prices is considered to be a reasonably likely percentage change based on the historical performance of the underlying investments and represents the exposure to market price risk for the year ended 31 March 2021.

A 10% increase/decrease in equity prices as at 31 March 2021 would have increased/decreased net profit and unitholder funds by $14,555,000 (2020: $7,562,000).

7b. Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to fully honour the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash and receivables.

The maximum credit risk of financial instruments is considered to be their carrying value.

The Fund does not require collateral or other security to support financial instruments with credit risk.

At 31 March 2021 all amounts due from brokers, and cash are held with counterparties with a credit rating of A (2020: A) or higher. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on lifetime expected credit losses as any such impairment would be insignificant to the Fund.

7. FINANCIAL RISK MANAGEMENT (Continued)

Cash

The Fund's cash balance is held with ANZ Bank New Zealand Limited ('ANZ') (31 March 2020: Westpac New Zealand Limited ('Westpac'))

The table below discloses the Standard & Poor's credit rating for the Fund's cash balance with the above bank at reporting date.

	2021		2020	
	Balance	**Credit rating**	**Balance**	**Credit rating**
	$'000		**$'000**	
ANZ	1,140	AA-	-	
Westpac	-		1,347	AA-
	1,140		**1,347**	

7c. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund is exposed to daily cash redemptions of redeemable units, however, the Fund's investments in listed securities are considered readily realisable, as they are quoted on the NZX Main Board.

The Fund continues to maintain appropriate levels of liquidity and meet its redemption obligations in the rapidly changing COVID-19 environment.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are 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 in Level 1 that are observable either directly (as prices) or indirectly (derived from prices);

Level 3 - Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

The fair value of the Fund's financial instruments are quoted market prices and are categorised as Level 1 in the hierarchy.

9. COMMITMENTS AND CONTINGENCIES

The Fund had no material commitments or contingencies at 31 March 2021 (2020: nil).

10. EVENTS AFTER REPORTING YEAR

Since 31 March 2021 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 Core Equity Trust

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of NZ Core Equity Trust (the 'Fund') on pages 2 to 12:

i. present fairly in all material respects the Fund's financial position as at 31 March 2021 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 2021;
- the statement of comprehensive income, changes in unitholders' funds and cash flows for the year 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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('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 services to Smartshares Limited (the "Manager") for statutory audit, controls assurance and registry assurance. The provision of these other services has not impaired our independence as auditor of the Fund. Subject to certain restrictions, partners and employees of our firm may also deal with the Funds 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.

Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Use of this independent auditor's report

This independent auditor's 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 independent auditor's report, or any of the opinions we have formed.

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-8/

This description forms part of our independent auditor's report.

KPMG

KPMG
Wellington

24 June 2021