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Taxable bonus issue and unit cancellation

The Manager of the Smartshares Exchange Traded Funds (**Scheme**) has determined that it is in the interests of unitholders for fully imputed taxable bonus issues to be made periodically by certain Funds of the Scheme (**Funds**). Any units issued in this manner will be immediately cancelled. This process allows the Funds to distribute excess imputation credits which investors may include in their income tax returns.

What will the bonus issues mean for me?

You may include the income and imputation credits in your income tax return
You can choose to include the taxable bonus issue in your income tax return, but are not required to do so. If you pay tax at a rate less than 28%, including the taxable bonus issue in your income tax return allows the excess imputation credits attached to reduce the tax payable on your other income.

No change in your holding or value of the Fund
If you are issued units as a result of a Fund undertaking a taxable bonus issue, those units will be immediately cancelled. This means there will be no change in the number of units you hold or value of those units.

You will not receive cash
Because the units issued are immediately cancelled, no cash will be distributed.

Why are taxable bonus issues necessary?

Each Fund of the Scheme is a listed portfolio investment entity that pays tax at the corporate tax rate of 28%. When a Fund pays tax it generates imputation credits. These credits can be attached to ordinary distributions paid by the Fund and may also be attached to taxable bonus issues.

Due to the way New Zealand's income tax legislation operates, a Fund may generate more imputation credits than can be attached to the ordinary distributions paid by that Fund to unitholders. Therefore, to ensure investors benefit from the full amount of imputation credits available, the Manager has determined that those excess credits should be distributed periodically by the relevant Funds via taxable bonus issues.

For more information on how the Funds are taxed, see the 'Other Material Information' document on the offer register at www.disclose-register.companiesoffice.govt.nz

How are taxable bonus issues treated for tax purposes?

For New Zealand tax purposes, a taxable bonus issue is a taxable dividend. Any taxable bonus issue made by the Funds will be fully imputed. At the time the bonus issue occurs, investors will be advised of the amount of the dividend for tax purposes and the imputation credits attached.

Because each Fund is a listed portfolio investment entity, New Zealand tax resident natural person (and certain trustee) investors can choose to include the taxable bonus issue in their income tax return, but are not required to do so. As with ordinary fully imputed distributions paid by the Funds, other New Zealand resident investors (for example, companies) will include any taxable bonus issues in their tax returns; however, the attached imputation credits should fully offset the tax liability arising as a result.

Will New Zealand withholding tax be deducted?
For New Zealand tax purposes, a fully imputed taxable bonus issue made by a Fund is treated as a non-cash dividend paid by a listed portfolio investment entity. Consequently, the Fund will not be required to deduct New Zealand Resident Withholding Tax (RWT) or Non-Resident Withholding Tax (NRWT).

The following comments are intended to be only a general summary of the relevant New Zealand tax consequences that could affect investors. There may be various non-New Zealand tax consequences that are not addressed here which could affect unitholders who are not New Zealand tax residents. The Manager recommends that investors who receive a taxable bonus issue seek independent tax advice if they are unsure how it should be treated for tax purposes.