

## Financial Markets Conduct (Craigs Investment Partners Self-Select Schemes) Exemption Notice 2023

This exemption is granted by the Financial Markets Authority under section 556 of the Financial Markets Conduct Act 2013 after being satisfied of the matters set out in section 557 of that Act.

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### Notice

#### 1 Title

This notice is the Financial Markets Conduct (Craigs Investment Partners Self-Select Schemes) Exemption Notice 2023.

#### 2 Commencement

This notice comes into force on 14 October 2023.

#### 3 Revocation

This notice is revoked on the close of 13 October 2028.

#### 4 Interpretation

(1) In this notice, unless the context otherwise requires, —

**Act** means the Financial Markets Conduct Act 2013

**CIPSML** means Craigs Investment Partners Superannuation Management Limited

**Craigs scheme** means any one of —

- (a) the Craigs KiwiSaver Scheme; and
- (b) the Craigs Investment Partners Superannuation Scheme; and
- (c) the Craigs Superannuation Scheme; and
- (d) any other self-select scheme established by CIPSML with CIPSML acting as the manager of that scheme.

**Investment options** means the equity securities, fixed interest securities, managed investment products, investment trusts, index funds, listed property trusts, cash and other investments offered under a self-select scheme

**Investment options supplement** means a document that contains the information referred to in clause 6(1)(e), (f) and (g)

**Investment portfolio** means, in relation to a self-select scheme, at any time, all of the investment options selected by the investor for investment within the scheme at that time

**most recent scheme year** has the meaning given in clause 63(8) of Schedule 4 to the Regulations

**personalised quarterly report** means the report relating to a scheme participant's investment portfolio within a Craig's scheme that is prepared quarterly and which contains the information referred to in clause 6(1)(p)

**publicly available information** includes, in respect of, and, if applicable to, an investment option, a link to a financial product's entry on the Disclose register, a link for financial products that are quoted to the relevant page for the financial product on NZX Limited or another financial product market and, for an investment option that is a fund, a link to the most recent fund update for that fund

**Regulations** means the Financial Markets Conduct Regulations 2014

**return** means, for the purposes of clauses 6(1)(p)(v) and 6(1)(p)(vi), the percentage change in the value of the scheme participant's investment portfolio over the period and must be calculated on the basis of the assumptions that a single investment is made at the beginning of the period and that all distributions are reinvested (a time-weighted return)

**self-select scheme** means a managed investment scheme under which a scheme participant may create their own investment portfolio by selecting from a range of investment options made available by the manager of the scheme.

- (2) Any term or expression that is defined in the Act or the Regulations and used, but not defined, in this notice has the same meaning as in the Act or the Regulations.

## 5 Exemptions

The manager in respect of each Craig's scheme is exempted from –

- (a) regulation 56(1) of the Regulations; and
- (b) clauses 12, 18, 23, 26, 27, 28, 32, 33, 34, 36, 37, 38, 39(2)(b), 52(1)(b), 52(1)(d), 53, 54 and 80(4) of Schedule 4 to the Regulations; and
- (c) regulation 9 of the Financial Markets Conduct (Fees) Regulations 2014 to the extent that it requires a fee to be paid under Schedule 3 to those Regulations on the lodgement of a PDS or a confirmation notice for that scheme.

## 6 Conditions

- (1) The exemptions in clause 5(a) and (b) in respect of each Craig's scheme are subject to the conditions that –
- (a) the PDS for the Craig's scheme that is given to an investor under section 50 of the Act must be accompanied by an investment options supplement; and

- (b) the PDS for the Craigs scheme incorporates the information in the investment options supplement required under clause 6(1)(e), (f) and (g) by reference to the investment options supplement; and
- (c) the investment options supplement must be included in the offer register for the Craigs scheme; and
- (d) if the investment options supplement is updated, the updated investment options supplement must be lodged on the offer register for the Craigs scheme within 5 working days after the date the investment options supplement was updated; and
- (e) the investment options supplement must contain the following information in respect of each investment option, stated in a table:
  - (i) a description of each investment option:
  - (ii) if it is offered by a related party, a statement to that effect:
  - (iii) risk indicator score for each investment option calculated and filled in in accordance with clauses 6 to 8 of Schedule 4 to the Regulations:
  - (iv) estimated total annual fund charge for each investment option calculated in accordance with clause 32 of Schedule 4 to the Regulations:
  - (v) if a performance fee is applicable, an affirmative indication that there is a performance fee and, for those investment options that have a PDS, a reference to the part of the PDS for the investment option that contains information about that fee:
  - (vi) the information required by clause 34 of Schedule 4 to the Regulations, provided that references in that clause to the PDS must be read as references to the investment options supplement and provided that if the other charges are the same for each investment option, this information can be stated below the table:
  - (vii) the information required by clause 37 of Schedule 4 to the Regulations, provided that references in that clause to the PDS must be read as references to the investment options supplement and provided that if the individual action fees are the same for each investment option, this information can be stated below the table:
  - (viii) a link to any publicly available information on the investment options; and
- (f) the investment options supplement must contain the following information under the table referred to in paragraph (e):

an example of how the fees will apply to an investor investing in a mix of investment options under the subheading “**Example of how fees apply to an investor**”, in the following form:

“*[Name]* invests \$10,000 in a number of the investment options from the investment options supplement. She/He is charged brokerage when her/his funds are invested of  $\$(calculate)$  (*[specify]*% of \$10,000).

This brings the starting value of her/his investment to  $\$(specify)$ .

She/He is also charged the management fee, which works out to  $\$(calculate)$  (*[specify]*% of  $\$(specify)$ ). These fees might be more or less if her/his account balance has increased or decreased over the year and are dependent on the type of investments she/he has selected.

Over the next year, [name] pays other charges of \$[specify].”

**Estimated total fees for the first year**

Brokerage: \$[calculate]

Management fee: \$[calculate]

Other charges: \$[specify]

“If [name’s] investment options include any funds, those funds may be subject to [additional/further] fees (including performance fees) and expenses.

This example may not be representative of the actual fees you may be charged and reflects a sample portfolio of investment options at the maximum management fee rate.”; and

- (g) the investment options supplement must contain the following information included at the back of the investment options supplement under the subheading **“Understanding the risk indicator”**, in the following form:

“A risk indicator number for each investment option is included in the investment options supplement.

The risk indicator is rated from 1 (low) to 7 (high). The rating reflects how much the value of the fund’s assets goes up and down (volatility). A higher risk generally means there is the potential for the higher returns over time, but with the risk of higher losses, and there are likely to be more ups and downs along the way.

To help you clarify your own attitude to risk, you can seek financial advice or work out your risk profile at [specify an appropriate page on an Internet site maintained by, or on behalf of, CIPSMML or the Retirement Commissioner].

Note that even the lowest category does not mean a risk-free investment, and there are other risks that are not captured by this rating.

The risk indicator is not a guarantee of an investment option’s future performance. The risk indicator is based on the returns data for [insert time period].

While risk indicators are usually relatively stable, they do shift from time to time.”; and

- (h) in the PDS, the KIS must contain under the subheading **“What is this?”** a statement in the following form:

**“WARNING**

The law normally requires people who offer financial products to give certain specified information to investors before they invest. This requires those offering financial products to have disclosed information that is important for investors to make an informed decision.

The usual disclosure rules do not apply to this offer because there is an exemption for offers of investments in self-select schemes. With a self-select scheme you choose the investments you want in your investment portfolio from a list of investment options provided by CIPSMML. As a result of the exemption, you may not have information that allows you to easily understand the overall risks and fees that apply to your investment portfolio. You will also not be able to easily compare an investment in the self-select scheme with other similar managed funds.

Investments in self-select schemes will not be suitable for all retail investors. We recommend that you seek independent financial advice before committing yourself. Your financial advice provider can help you understand your risk profile and assist you to select investments that are suitable for you.

We suggest you ask questions, read all documents carefully, and seek independent financial advice before committing yourself.”; and

- (i) in the PDS, the KIS must contain under the subheading **“What will your money be invested in?”** the following information:
  - (i) a description of how the Craigs scheme works, how investment options are selected and a brief description of the types of investment options offered:
  - (ii) a description of where to obtain the investment options supplement and a statement about the information contained in the investment options supplement:
  - (iii) a statement about where information on fees for the Craigs scheme and fees for the investment options can be found; and
- (j) in the PDS, the KIS must contain under the subheading **“Where can you find more key information?”** a statement to the effect that no fund updates will be produced due to the nature of the Craigs scheme but that investors will receive personalised quarterly reports which show the returns, the risk indicator and the total fees actually charged in relation to their investment portfolio in the Craigs scheme; and
- (k) the section of the PDS headed **“Description of your investment option(s)”** must include the following information:
  - (i) a brief description of the types of investment options offered:
  - (ii) a brief description of where to obtain the investment options supplement:
  - (iii) a brief description of the information contained in the investment options supplement:
  - (iv) a summary of how and when changes can be made to the list of investment options for the Craigs scheme, including whether investors will be notified of those changes and how investors can otherwise obtain information about those changes:
  - (v) a statement that the manager has prepared a SIPO for the Craigs scheme and that the SIPO contains the manager’s investment guidelines for selecting financial products and other investment to be recommended as part of the investment options supplement:
  - (vi) a summary of how changes can be made to the SIPO, including whether investors will be notified of those changes and how investors can otherwise obtain information about those changes; and
- (l) the section of the PDS headed **“What are the risks of investing?”** must include the following information:
  - (i) statement in the following form:

“To help you clarify your own attitude to risk, you can seek financial advice or work out your risk profile at [*specify an appropriate page on an Internet site maintained by, or on behalf of, the manager or the Retirement Commissioner*].”:

- (ii) a statement that the risk indicator for each investment option can be found in the investment options supplement:
  - (iii) a statement that an explanation of the risk indicator can be found in the investment options supplement:
  - (iv) in relation to any investment option included in the investment options supplement that is a fund that has its own fund updates produced by the manager of that fund, a statement that the latest risk indicator for that investment option is included in the fund update for that investment option and that the investment options supplement contains a link to that fund update:
  - (v) under the subheading “General investment risks”, a brief summary of the general investment risks that may cause the value of an investment option or the value of the investor’s investment portfolio to go up or down:
  - (vi) under the subheading “Other specific risks”, a description of the circumstances that the manager is aware of that exist or are likely to arise that significantly increase the risk to returns for investors, other than the circumstances that are reflected in the risk indicator; and
- (m) the section of the PDS headed “What are the fees?” must include the following information:
  - (i) a statement in the following form:

“Information on the fees for [*name of Craigs scheme*] can be found in the investment options supplement.”:
  - (ii) a statement that information on the fees actually charged during the most recent year will be provided in the personalised quarterly report given to each investor: and
- (n) the investment options supplement must contain no information other than the information permitted by this notice; and
- (o) the manager must provide each Craigs scheme participant with a personalised quarterly report within 20 working days after the last day of each quarter of each disclosure year by-
  - (i) making it available to the Craigs scheme participant through an electronic facility (but only if the scheme participant has agreed to this method); or
  - (ii) giving it to the Craigs scheme participant or delivering or sending it to the Craigs scheme participant’s last known address; and
- (p) the personalised quarterly report must contain the following information in relation to the Craigs scheme participant:
  - (i) the Craigs scheme participant’s account balance as at the first and last day of the quarter as at which the personalised quarterly report is prepared:
  - (ii) the contributions and withdrawals made by the Craigs scheme participant over the 12-month period ending on the last day of the quarter as at which the personalised quarterly report is prepared:
  - (iii) an income schedule showing the interest and dividend receipts received over the 12-month period ending on the last day of the quarter as at which the personalised quarterly report is prepared:
  - (iv) for quarters ending on or after the date that is the first anniversary of the date on

which this notice comes into force, a risk indicator that is presented, calculated and filled in in accordance with clauses 5 to 8 of Schedule 4 to the Regulations in relation to the Craigs scheme participant's investment portfolio, with references in clauses 5 to 8 of Schedule 4 to the Regulations to the fund to be read as references to the Craigs scheme participant's investment portfolio:

- (v) the annual return (net of fund charges, trading expenses and accrued tax) of the Craigs scheme participant's investment portfolio over the 12-month period ending on the last day of the quarter as at which the personalised quarterly report is prepared:
- (vi) if the Craigs scheme participant has been a member of the scheme for more than 1 complete disclosure year, a bar graph (an **annual return graph**) showing –
  - (A) the return (net of fund charges, trading expenses and accrued tax) for the Craigs scheme participant's investment portfolio, indicated by a bar on the graph and as a figure near the corresponding bar –
    - a. for each complete disclosure year since the date on which the Craigs scheme participant became a member of the Craigs scheme, if the Craigs scheme participant has been a member of the Craigs scheme for less than 10 complete disclosure years; or
    - b. for each of the last 10 complete disclosure years, if the Craigs scheme participant has been a member of the Craigs scheme for 10 or more complete disclosure years; and
  - (B) as the last bar on the graph, the return for the period beginning on the date on which the Craigs scheme participant became a member of the Craigs scheme and ending on the last day of the quarter as at which the personalised quarterly report is prepared (or, if the Craigs scheme participant has been a member of the Craigs scheme for 10 or more complete disclosure years, the return for the 10-year period ending on the last day of the quarter as at which the personalised quarterly report is prepared):
- (vii) the actual total fund charges for the Craigs scheme participant's investment portfolio, as a percentage of average net asset value for the most recent scheme year, and how the actual total fund charges for that period are made up by showing in a fees table consistent with the format set out in clause 65 of Schedule 4 to the Regulations –
  - (A) the total management and administration charges; and
  - (B) the amount of the total management and administration charges that is the manager's basic fee; and
  - (C) the balance of the total management and administration charges after deducting the amount under paragraph B; and
  - (D) the total performance-based fees,  
and otherwise calculated on a basis consistent with clause 63(3) to clause 63(6) of Schedule 4 to the Regulations:
- (viii) the actual total other charges for the most recent scheme year calculated in accordance with clause 64 of Schedule 4 to the Regulations:
- (ix) the actual individual action charges for the most recent scheme year:

- (x) details of the investment options that make up the scheme participant's investment portfolio:
  - (xi) a pie graph showing, as at the last day of the quarter as at which the personalised quarterly report is prepared, the composition of the scheme participant's investment portfolio assets according to the asset categories specified in clause 1(4) of Schedule 4 to the Regulations:
  - (xii) alongside each category in the pie graph, the percentage of the pie graph that the category represents:
  - (xiii) the information in clause 72 of Schedule 4 to the Regulations, provided that references to –
    - (A) the fund update must be read as references to the personalised quarterly report; and
    - (B) the specified fund must be read as references to the Craigs scheme; and
    - (C) the relevant date must be read as references to the last day of the quarter as at which the personalised quarterly report is prepared; and
  - (q) the personalised quarterly report must contain no information other than the information permitted by this notice; and
  - (r) the register entry must contain a copy of each trade allocation policy, trade execution policy, proxy voting policy, or valuation and pricing methodology that is applied to the Craigs scheme as at the last day of the most recent quarter before the date of the PDS (if any); and
  - (s) if trade allocation policies, trade execution policies, proxy voting policies, or a valuation and pricing methodology is applied to the Craigs scheme, the manager must lodge with the Registrar within 20 working days after the last day of each quarter of each disclosure year, a statement that –
    - (i) specifies any material changes that have been made to those policies or that methodology during the relevant quarter; and
    - (ii) describes, in the case of a material change to a valuation and pricing methodology, the effect of the changes on the Craigs scheme's net asset value and the value of investors' accounts; and
  - (t) the manager must lodge with the Registrar, within 20 working days after the last day of each quarter of each disclosure year, a statement that specifies any material changes to the conflicts of interest described in the register entry during that previous quarter.
- (2) The exemption in clause 5(c) in respect of each Craigs scheme is subject to the condition that the manager must pay fees to the Registrar on lodgement of a PDS or confirmation notice for a Craigs scheme that are equivalent to the fees that would be payable on lodgement of a product disclosure statement or confirmation notice for a financial product (other than a managed investment product in a managed fund) under regulation 9 and Schedule 3 of the Financial Markets Conduct (Fees) Regulations 2014.
- (3) An investment options supplement does not fail to comply with clause 6(1)(n) merely because the investment options supplement contains additional information that is necessary –
- (a) to clarify the information required under clause 6(1)(e), (f) and (g); or
  - (b) to put the information required under clause 6(1)(e), (f) and (g) in context to ensure that the information that is disclosed is not false or misleading.



- (4) A personalised quarterly report does not fail to comply with clause 6(1)(q) of this notice merely because the personalised quarterly report contains additional information that is necessary –
- (a) to clarify the information required under clause 6(1)(p); or
  - (b) to put the information required under clause 6(1)(p) in context to ensure that the information that is disclosed is not false or misleading.

Dated at Wellington this      day of                      2023.



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John Horner  
Director of Markets, Investors and Reporting  
Financial Markets Authority

### Statement of Reasons

This notice comes into force on 14 October 2023. The notice is revoked on the close of 13 October 2028.

The notice exempts Craig's Investment Partners Superannuation Management Limited (**CIPSML**) as manager of certain self-select schemes, in respect of those schemes, from the following provisions of the Financial Markets Conduct Regulations 2014 (the **FMC Regulations**):

- regulation 56(1) of the FMC Regulations; and
- clauses 12, 18, 23, 26, 27, 28, 32, 33, 34, 36, 37, 38, 39(2)(b), 52(1)(b), 52(1)(d), 53, 54 and 80(4) of Schedule 4 to the FMC Regulations; and

The notice also exempts CIPSML as manager of certain self-select schemes, in respect of those schemes, from regulation 9 of the Financial Markets Conduct (Fees) Regulations 2014 to the extent that it requires a fee to be paid under Schedule 3 of those Regulations on the lodgement of a PDS or a confirmation notice for that scheme.

The Financial Markets Authority (**FMA**), after satisfying itself as to the matters set out in section 557 of the Act, considers it appropriate to grant these exemptions because—

- the exemptions recognise the difficulties faced by CIPSML as fund manager of certain self-select schemes in complying with the disclosure requirements of the FMC Regulations. The exemptions also recognise the uniquely high fee burden CIPSML would face in relation to its self-select schemes given the requirement for lodgement fees to be paid on a 'per fund' basis. In the absence of the exemptions, CIPSML would be required to comply with disclosure requirements that are likely to result in a high compliance burden (and compliance costs) without providing useful information for investors that will help them to make decisions relating to financial products;
- the exemptions are subject to conditions that provide for investors in CIPSML's self-select schemes to have access to more meaningful information relating to the scheme in the PDS and a supplement to the PDS and also for investors to receive quarterly reports containing personalised investor information relating to their own self-selected portfolio;
- in these circumstances the granting of the exemptions is desirable in order to promote the purposes of the FMC Act, specifically by avoiding unnecessary compliance costs, providing for timely, accurate and understandable information to be provided to investors to assist them with making investment decisions and by promoting innovation and flexibility in the financial markets; and

- the exemption is not broader than is reasonably necessary to address the particular difficulties experienced by CIPSML as manager of self-select schemes, and is subject to conditions that continue to require relevant information to be provided at the time of offer and on an ongoing basis to assist with investor decision making. The exemption only applies to a small group of managed funds where the special structure of their schemes distinguishes them from standard managed funds. The exemption from lodgement fees is on the condition that fees are paid on a basis consistent with lodgement fees for other non-managed fund issuers.