



Smartshares

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Chairman's Report

Performance in 2009-10

After such a prolonged period of global volatility it was heartening to see the positive performance of all five Smartshares funds over the year to 31 March 2010. Whilst the long term effects of the Global Financial Crisis are clearly still evident in the world market, the crisis currently facing Greece for example, the past year has seen both the New Zealand and Australian equity markets recover sharply from their lows in 2008.

	31 March 2009	31 March 2010	Performance
smartTENZ	\$NZ0.7496	\$NZ0.8626	15.48%
smartMIDZ	\$NZ1.8771	\$NZ2.2370	19.12%
smartFONZ	\$NZ1.0761	\$NZ1.3345	24.02%
smartOZZY	\$NZ2.6660	\$NZ3.8582	44.72%
smartMOZY	\$NZ3.6726	\$NZ5.4901	49.49%

The Australian market in particular has had a strong year reflected in the outstanding performance returns for both smartOZZY and smartMOZY. The smartMOZY one year performance of nearly 50% is notable however it is perhaps the longer term returns of smartOZZY that are particularly impressive and warrant closer attention. According to FundSource, smartOZZY ranks in the top three for retail equity PIEs (Portfolio Investment Entity) that are open to new investors for 3 year returns till March 2010. A fantastic achievement all the more impressive given the passive nature of the Fund means that it is achieved within a low fee structure and without having to take on any of the risks associated with active management. It also helps to explain why smartOZZY, at \$110 million as at the end of March 2010, was the biggest retail equity PIE fund open to New Zealand investors¹.

Improving Your Funds

The last year has been a busy one for Smartshares as we work hard to improve the quality of service you receive from us. You will have received a letter at the beginning of March confirming the 1 April 2010 implementation of the previously announced operational changes to the Funds. The key changes can be summarized as:

- ▶ Change of management fee structure (resulting in a decrease of management fee rate for investors who are currently in the highest fee brackets and with no increase in fee rate for any other investors);
- ▶ Simplification of the way the Funds distribute income to investors;
- ▶ Change in the method of calculation of the Net Asset Value (NAV).

¹ FundSource

These changes bring the distribution methodology for the Smartshares Funds in line with other listed issuers, and most exchange traded funds (ETFs) worldwide, and should make the distribution process much easier for investors to understand. What is important to note is that prior to 1 April 2010 a Unitholder's distribution entitlement arose by virtue of holding units at the Record Date for the dividend on the underlying security.

From 1 April 2010, a Unitholder's distribution entitlement is based on whether the Unitholder holds units at the Record Date set for the Funds six-monthly distribution. This means that distribution rates per unit will be the same for all investors within the Funds as opposed to being calculated at an individual investor level as has happened previously.

This means that Unitholders who sell or redeem their Smartshares Units before a distribution Record Date will not receive any distributions that relate to dividends and other income credited to the Funds during the period from the last distribution payment date to the date of the sale or redemption.

Instead those distributions and other income payments are held in the Funds and will be taken into account in the calculations of the Funds' NAV. Therefore, Unitholders who wish to receive distributions on their Smartshares Units must retain those units until after the Record Date for the next distribution as they would for other listed issuers or Funds in the market.

We are always striving to improve the quality of service you receive from us and I encourage you to contact the Smartshares team if you have any questions on any of the points raised above. I look forward to future communications with you as a valued Smartshares investor.



F MACKENZIE | CHAIRMAN
Smartshares Limited

NZX 10 Fund (smartTENZ)

Performance for the Financial Year ended 31 March 2010

Fund performance

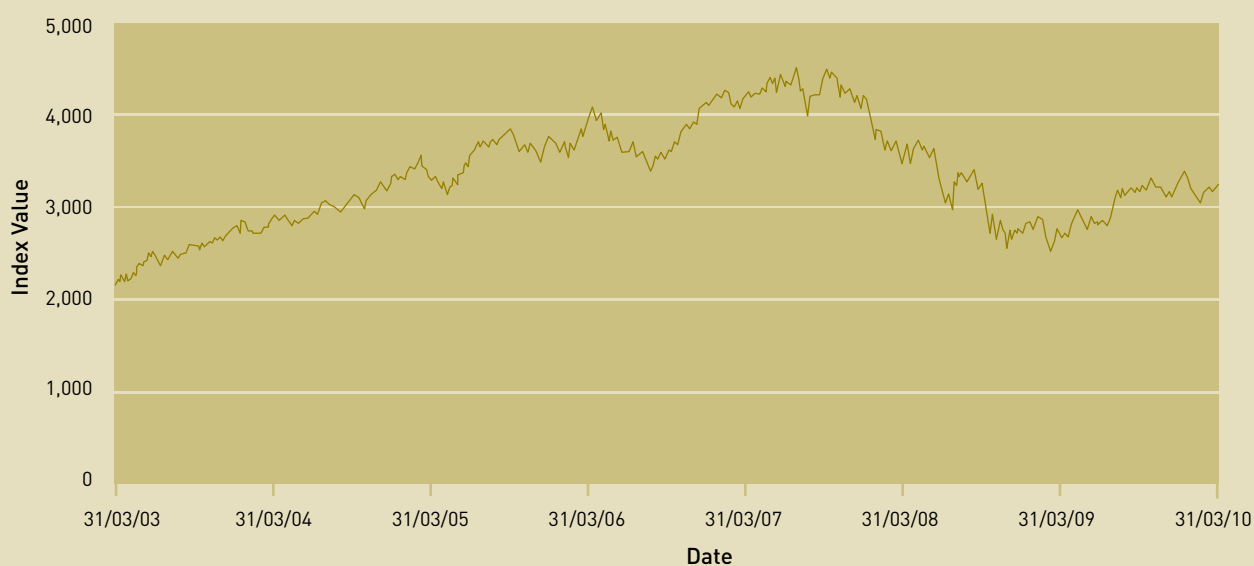
For the year to 31 March 2010, the NZX 10 fund (smartTENZ) returned positive 15.03% before the payment of any dividends. For the full year, distributions totalled 4.22 cents per unit gross*. This equated to a gross dividend yield of 4.91% based on the market close price as at 31 March 2010 (market close price at 31 March 2010: \$0.86).

smartTENZ had 65.9 million units on issue with a market capitalization of \$56.9 million as at 31 March 2010.

Index performance

The NZX 10 Gross Index, which includes any dividends paid, returned positive 18.83% over the year. During the last five years the NZX 10 Gross Index has had an annualized return of negative -0.79% per annum.

Performance of the NZX 10 Gross Index (NZD)



Key metrics for the Financial Year ended 31 March 2010

	31 March 2010	31 March 2009	31 March 2008	31 March 2007**	31 March 2006
NZX 10 Capital Index	862.69	747.08	1,035.80	1,284.45	1,297.06
Net assets per unit	\$0.863	\$0.750	\$1.036	\$1.284	\$1.297
Distribution per unit over year*	4.22 cents	5.51 cents	5.99 cents	NIL	6.85 cents
Number of Unitholders	2,875	3,048	3,177	3,257	3,317
Units on Issue	65,958,323	72,267,252	59,424,270	60,653,639	61,023,136
Total value of Unitholders' funds (at close prices)	\$56,901,885	\$54,171,413	\$61,536,209	\$77,906,297	\$79,874,964

*Before the deduction of management fees

**The year end for the fund has been changed from December to March. The data quoted is for the three months to 31st March 2007



NZX 10 Fund

Report to Unitholders



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010
Presented by Smartshares Limited, Manager of the NZX 10 Fund

Financial Statements

Statement of Comprehensive Income | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Income			
Dividends		3,098	3,195
Other income		-	(8)
Net changes in fair value of financial assets		7,617	(18,816)
Total Revenue		10,715	(15,629)
Management fees	7	254	261
Increase/(Decrease) in Net Assets Attributable to Unitholders Before Tax		10,461	(15,890)
Tax expense	4	410	190
Increase/(Decrease) in Net Assets Attributable to Unitholders After Tax		10,051	(16,080)

Changes in Net Assets Attributable to Unitholders | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Net assets attributable to Unitholders at beginning of period		54,033	61,295
Increase in net assets attributable to Unitholders this period		10,051	(16,080)
Net subscriptions (redeemed)/allotted	5	(4,958)	11,554
Distribution accrued to Unitholders	6	(2,434)	(2,736)
Net Assets Attributable to Unitholders at End of Period		56,692	54,033

These financial statements should be read in conjunction with the notes on pages 9-16.

Balance Sheet | As at 31 March 2010

	Note	2010 \$000	2009 \$000
Current Assets			
Cash at call		660	480
Accounts receivable		431	351
Total Current Assets		1,091	831
Non-Current Assets			
Investments in equity securities held at fair value	8	56,692	54,033
Total Non-Current Assets		56,692	54,033
Total Assets		57,783	54,864
Current Liabilities			
Taxation Payable		159	94
Management fees payable	7	22	39
Funds held for unit purchases		12	19
Distribution payable to Unitholders	6	898	679
Total Liabilities excluding Net Assets Attributable to Unitholders		1,091	831
Net Assets attributable to Unitholders		56,692	54,033

These financial statements should be read in conjunction with the notes on pages 9-16.

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 25 May 2010.



F MACKENZIE | CHAIRMAN
Smartshares Limited



G TAYLOR | DIRECTOR
Smartshares Limited

Cash Flow Statement | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Cash Flows from Operating Activities			
Cash was provided from:			
Dividends received		3,018	3,283
Other income received		-	(11)
Cash inflows from operating activities		3,018	3,272
Cash was applied to:			
Management fees paid		(271)	(272)
Taxation (paid)/received	4	(345)	264
Cash outflows from operating activities		(616)	(8)
Net Cash Flows from Operating Activities		2,402	3,264
Cash Flows from Investing Activities			
Cash was applied to:			
Net reimbursement to fund manager for payments on behalf		-	(202)
Cash outflows from investing activities		-	(202)
Net Cash Flows from Investing Activities		-	(202)
Cash Flows from Financing Activities			
Cash was provided from:			
Savings plan & direct purchase deposits		405	590
Cash inflows from financing activities		405	590
Cash was applied to:			
Purchase of financial assets		(412)	(590)
Distributions paid to Unitholders	6	(1,591)	(2,156)
Distributions paid for dividend reinvestment	6	(624)	(992)
Cash outflows from financing activities		(2,627)	(3,738)
Net Cash Flows from Financing Activities		(2,222)	(3,148)
Net Increase in cash held		180	(86)
Opening cash balance		480	566
Cash at End of Period		660	480
Reconciliation of Increase/(Decrease) in Net Assets Attributable to Unitholders after Tax with Net Cash Flows from Operating Activities			
Increase in net assets attributable to Unitholders after tax		10,051	(16,080)
Less non-cash items:			
Net changes in fair value of financial assets		(7,617)	18,816
Operating movement in taxation payable/receivable		65	480
Movement in management fees payable		(17)	(12)
Movement in accounts receivable		(80)	60
Operating movement in accounts payable		-	-
Net Cash Flows from Operating Activities		2,402	3,264

These financial statements should be read in conjunction with the notes on pages 9-16.

Notes to the Financial Statements

1. General Information

The NZX 10 Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established in New Zealand under the Trustee Companies Act 1967 and a Trust Deed dated 7 May 1996. The Fund is an Issuer as defined in the Financial Reporting Act 1993 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders and distributions are confined only to dividends received from the portfolio of investments in equity securities. All changes in the value of investments, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager') tracking the NZX 10 Index (the 'Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the NZX 10 Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are listed and traded on the NZX NZSX market. Investments in equity securities are valued at fair value according to last bid prices on the NZX NZSX market on 31 March 2010 (see Note 8).

2. 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 to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), being the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). 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 this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar (NZD), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

2.2 Financial Assets at Fair Value through Profit or Loss

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the 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.

Notes to the Financial Statements

Continued

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

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

2.3 Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities are those activities that relate to cash contributions from or cash distributions to Unitholders.

Subscriptions subsequent to the initial public offering can be made in the form of baskets of constituent securities of the Index (i.e. not for cash) and therefore have not been included in the Cash Flow Statement. Redemptions can also be made in the form of baskets and therefore have not been included in the Cash Flow Statement.

2.4 Redeemable Units

The Fund issues redeemable units, which are redeemable at the Unitholder's option and are classified as financial liabilities. Redeemable units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for securities of the constituent companies in proportion to the index. The redeemable unit is carried at the proportion of the Fund's net asset value at the balance sheet date.

Redeemable units are issued and redeemed at the Unitholder's option at prices based on the Fund's net assets value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders of redeemable units by the total number of outstanding redeemable 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.

2.5 Dividend Revenue

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

2.6 Distributions Payable to Holders of Redeemable Units

Dividend income from investments is attributed to Unitholders on the basis of the number of units held at the entitlement date of the income. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distribution of this income for the year ending 31 March 2010 was made as at 20 March (record date 29 February) and 20 September (record date 31 August). For the year ending 31 March 2011, distributions will be made as at 20 April (record date 31 March) and 20 October (record date 30 September).

2.7 Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity (PIE).

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method) from the entities listed in Note 8. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.8 Changes in Accounting Policies

There have been no material changes to accounting policies during the period.

2.9 Comparatives

Comparative figures where necessary have been restated to correspond to the current year classifications.

3. Financial Risk Management

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Fund does not have exposure to currency risk or interest rate risk.

3.1 Market price risk

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Fund Manager does not manage this risk.

3.2 Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities at fair value. The maximum credit risk of financial instruments is considered to be fair value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

	Mar 2010 \$000	Mar 2009 \$000
Cash	660	480
Accounts receivable	431	351
Investments in equity securities at fair value	56,692	54,033

3.3 Liquidity risk

The Fund's listed securities are considered readily realisable, as they are listed on the NZX NZSX market.

Notes to the Financial Statements

Continued

4. Taxation

	Year Ended Mar 2010 \$000	Year Ended Mar 2009 \$000
Income tax expense		
Increase/(Decrease) in net assets attributable to Unitholders before tax	10,461	(15,890)
Add back management fees	254	261
Less change in fair value of financial assets	(7,617)	18,816
Non-taxable income	(272)	(115)
Movement in fully imputed accrued dividends	(86)	65
Gross up of imputation credits	608	1,183
Taxable income	3,348	4,320
Taxation at 30%	1,004	1,296
Less imputation credits and foreign income tax credits	(602)	(1,106)
Prior period adjustment	8	-
Tax expense	410	190
Imputation credits		
Opening balance	610	1,263
Imputation credits received during the period	608	1,183
Net tax paid/(refunded) during the period	345	(264)
	1,563	2,182
Credits attached to distributions paid	(1,025)	(1,572)
Credits to be available for future distributions	538	610

5. Redeemable Units

All issued units are fully paid and redeemable, and have been admitted to the official listing of the NZX NZSX market. The Fund's capital is represented by these redeemable units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Net Assets Attributable to Unitholders.

To determine the net asset value of the Fund for subscriptions and redemptions, financial assets have been valued based on the last traded market prices as of the close of business on the relevant trading day.

6. Distribution to Unitholders

	Total attributed to Unitholders Mar 2010 \$000	Total attributed to Unitholders Mar 2009 \$000
Distribution payable at beginning of period	679	1,091
Distribution accrued to Unitholders	2,434	2,736
	3,113	3,837
Distributed to Unitholders	(2,215)	(3,148)
Distribution payable to Unitholders	898	679

7. Related Parties

The Fund is managed by Smartshares Limited (the 'Investment Manager'), a wholly owned subsidiary of NZX Limited. Smartshares Limited receives management fees directly from the Unitholders. Under the Trust Deed the Investment Manager pays the Trustee, Custodian, Registrar and Auditor in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total management fees for the year amounted to \$254,000 (year ending 31 March 2009 \$261,000), with \$22,000 (Mar 2009: \$39,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2010 the Fund has payables to Smartshares Limited of \$nil (Mar 2009: \$nil).

The audit fee paid by the manager for the audit of the Fund for the year to 31 March 2010 was \$4,000 (2009: \$4,000).

Notes to the Financial Statements

Continued

8. Investments in Equity Securities held at Fair Value as at 31 March 2010

Company	Number of Securities	Fair Value \$
Auckland International Airport Limited	3,123,285	5,965,474
Contact Energy Limited	1,431,212	9,102,508
Fisher & Paykel Healthcare Corporation Limited	1,228,470	4,029,382
Fletcher Building Limited	1,453,428	12,136,124
Infratil Limited	1,362,688	2,343,823
Kiwi Income Property Trust	1,935,772	1,935,772
Ryman Healthcare Limited	1,198,963	2,481,853
SKYCITY Entertainment Group Limited	1,379,083	4,426,856
Sky Network Television Limited	834,800	4,457,832
Telecom Corporation of New Zealand	4,542,637	9,812,096
		56,691,720

All financial assets are designated at inception as being at fair value through the profit or loss. The fair value of financial assets is calculated using the last bid price on the relevant trading day. The fair value of financial assets held at 31 March 2010 was \$56,691,720 (Mar 2009: \$54,033,069). The investments are registered in the name of JB Were (NZ) Nominees Limited, the Custodian of the Fund.

9. Unitholders' Funds

As at 31 March 2010 there were 65,958,323 (Mar 2009: 72,267,252) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of preparing the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2010 was \$0.8627 (Mar 2009: \$0.7496).

NZ IFRS requires that long quoted investment positions be valued at the closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2010 was \$0.8595 (Mar 2009: \$0.7477).

10. Events after the Balance Sheet Date

The Manager has implemented a series of changes to the Fund designed to simplify management fees and dividend distributions in respect of the Fund. The changes took effect from 1 April 2010.

The key changes are as follows:

- ▶ Simplification of the way the Fund distributes income to investors;
- ▶ Change of the management fee structure (resulting in a decrease of the management fee rate for investors who are currently in the highest fee brackets and with no increase in fee rate for any other investors); and
- ▶ Change in the method of calculation of the Net Asset Value (NAV).

Further details of the changes are set out below:

Discontinuation of Unitholder Distribution Account

The Manager has discontinued the use of the Unitholder Distribution Accounts (UDAs) for the Fund. This means that dividends and other income the Fund receives are retained in the Fund (and reflected in the unit price), and the Fund will make six-monthly distributions to Unitholders, with each Unitholder's entitlement based on the Unitholder's holding as at the Record Date for that distribution.

The proportionate share of each distribution by the Fund will be automatically reinvested (unless Unitholders elect to receive payment by direct credit instead) with any fees and expenses deducted directly from the Fund where applicable.

Management and other fees

From 1 April 2010 the Manager ceased charging management fees to the UDAs and is instead charging those fees to the Fund directly. Accordingly, management fees are reflected in the unit price, meaning a flat fee structure is achieved, rather than the tiered structure that previously applied and depended on the level of a Unitholder's investment. No investor will be charged management fees at a higher rate under the new structure.

The new fee structure from 1 April 2010 is set out to be 0.60% p.a. exclusive of GST: The management fee will be calculated daily as a percentage of the NAV of the Fund.

Calculation of Net Asset Value

Discontinuation of use of the UDAs allows the Manager to move to an "accrual-based" model for calculating the Fund's NAV (which is the basis for its unit pricing). The move to an accrual based model means that NAV per unit includes not only the value of the underlying securities held in a Fund (which is the basis on which the NAV was previously calculated), but also accrued income in relation to the portfolio (for example, dividends and tax credits) less liabilities (for example, tax expense, management fees). Please note that these examples of income and liabilities are not exhaustive and other types of income may be received and liabilities incurred from time to time.

Distributions

From 1 April 2010, a Unitholder's distribution entitlement is determined based on whether that Unitholder holds units at the Record Date set for the Fund's six-monthly distribution. Distribution rates per unit will be the same for all investors within the Fund.

Notes to the Financial Statements

Continued

The Manager is not obliged to issue units in the Fund in the period from (and including) the announcement of a distribution to (and including) the Ex Date (as defined in the NZSX Listing Rules) for that distribution (as unit issues during that period could result in an increased number of units on issue, which would in turn result in a decrease in the announced distribution on a per unit basis).

The Manager may, at its discretion, deduct from any distribution an amount of cash if and to the extent that the Manager reasonably considers that such a deduction is required to meet any liabilities that become payable in the next (or later) distribution period incurred.

Tracking error

The Fund will continue to track the Capital Index applicable to the Fund as closely as possible. However, the retention of income within the Fund may lead to increased potential for tracking error during each distribution period. At the end of each distribution period, as all income is paid out of the Fund in the form of a dividend, the tracking error should realign at that time as the income will be distributed out of the Fund (with a corresponding decrease in the Fund's NAV).

The portfolio of securities held by the Fund (which represents stocks held by the Fund in proportion to the index tracked by the Fund and does not include any income received) will continue to track the Capital Index in the same manner that the Fund has historically.

While there may be increased potential for tracking error due to the retention of income in the Fund, the Manager considers that this is outweighed by the benefits which result from the discontinuation of the UDAs and other changes to the Fund.

The Manager also considers that continuing to track the relevant Capital Index is preferable to a shift to tracking a "Gross" Index, because a Gross Index is calculated on the assumption that all dividends paid are reinvested in the relevant company in the Index, whereas the Fund may receive those dividends in cash. This mismatch could result in a greater divergence between the index level (which will fluctuate depending on the performance of the companies and the assumed reinvestment of dividends) and the NAV of the Fund. The Manager's expectation is that this mismatch could lead to a far greater tracking difference than is likely to occur if the Fund continues to track the Capital Index, and that correcting this tracking difference in a manner which does not compromise Unitholders' interests could be difficult.

The Manager may charge to the Fund the costs of reducing or eliminating a tracking difference. However this will not be exercised in relation to a tracking difference that results from retaining income within the Fund as it is expected that this tracking difference will "clear" at the end of each distribution period.

11. Contingent Liabilities

There are no known contingent liabilities as at balance date (Mar 2009: nil).

12. Issued but not yet effective accounting standards

NZ IAS 7 Statement of Cash Flows states that only expenditure that results in a recognised asset can be classified as cash flow from investing activities. This change may require a reclassification of Investing Activities within the Statement of Cash Flows.

There are a number of other issued but not yet effective standards that the Fund has assessed as having either no impact or the impact has yet to be determined.

Unitholder Information

Distribution of security holders and security holdings as at 1 May 2010

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	132	4.64%	31,693	0.05%
1,001 to 5,000	644	22.64%	1,873,306	2.86%
5,001 to 10,000	836	29.40%	6,324,526	9.64%
10,001 to 100,000	1,195	42.02%	27,688,520	42.2%
100,001 and above	37	1.30%	29,693,578	45.25%
Total	2,844	100.00%	65,611,623	100.00%

20 Largest registered holders of quoted equity securities as at 1 May 2010

Full Name	Total	Percentage
New Zealand Central Securities Depository Limited	15,986,318	24.37%
Investment Custodial Services Limited <C A/C>	1,906,863	2.91%
ANZ Nominees Limited <1563-0001 A/C>	1,837,210	2.80%
Custodial Services Limited <3 A/C>	913,410	1.39%
ANZ Nominees Limited <1783-0001 A/C>	848,980	1.29%
Accordia Nominees Limited	688,500	1.05%
HSBC Nominees (New Zealand) Limited <040-024663-126 A/C>	673,060	1.03%
Custodial Services Limited <2 A/C>	531,977	0.81%
Eeshala Nominees Limited	505,988	0.77%
Roger Arthur Cornish & Nancy Joan Cornish	500,000	0.76%
Mohua Limited	440,051	0.67%
Ross Richard Stuhlmann & Graham John Stevens & Stewart Co Trust Services Ltd	401,171	0.61%
Custodial Services Limited <8 A/C>	379,008	0.58%
Maori Investments Limited	376,698	0.57%
FNZ Custodial Services Limited	282,966	0.43%
Thomas William Schnackenberg & Annette Helen Schnackenberg	263,114	0.40%
HSBC Nominees (New Zealand) Limited <040-01687-231 A/C>	259,196	0.40%
HSBC Nominees (New Zealand) Limited	230,000	0.35%
Tania Natasha Tikus Murray & Neil Lawrence Murray & Brown Street Trustees Limited	192,866	0.29%
Citibank Nominees NZ Ltd <Tenz Fund A/C>	192,396	0.29%
	27,409,772	41.77%

Unitholder Information

Continued

Substantial Security Holders

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988, as at 1 May 2010 Sovereign Assurance Company Limited was a substantial holder in the Fund with 15,986,318 units. The total number of units on issue at 1 May 2010 was 65,611,623.

Directors Interests in units as at 31 March 2010

	Beneficial	Non-Beneficial
Fiona Mackenzie (appointed 14 September 2009)	-	-
Geoffrey Brown (resigned 21 May 2010)	5,708	-
Damas Potoi (resigned 6 April 2010)	-	-

Waivers granted

The Special Division of New Zealand Markets Disciplinary Tribunal (formerly NZX Discipline) has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2010:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C and 3.6 – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents
- 7.3 – Issues of Securities.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.2.3 – Statements after Issues or Transfers.
- 11.1.5 – Approval for restrictions
- Appendix 2 - Minimum Holding



Audit report

To the Unitholders of NZX 10 Fund

We have audited the financial statements on pages 6 to 16. The financial statements provide information about the past financial performance of NZX 10 Fund (“the Fund”) and its financial position as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 9 to 11.

Managers’ responsibilities

The Fund Manager is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Fund as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Auditors’ responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Manager and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Manager in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Fund’s circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no relationship with or interests in the Fund.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Fund as far as appears from our examination of those records;
- the financial statements on pages 6 to 16:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the Fund as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 25 May 2010 and our unqualified opinion is expressed as at that date.

Wellington

NZX Midcap Index Fund (smartMIDZ)

Performance for the Financial Year ended 31 March 2010

Fund performance

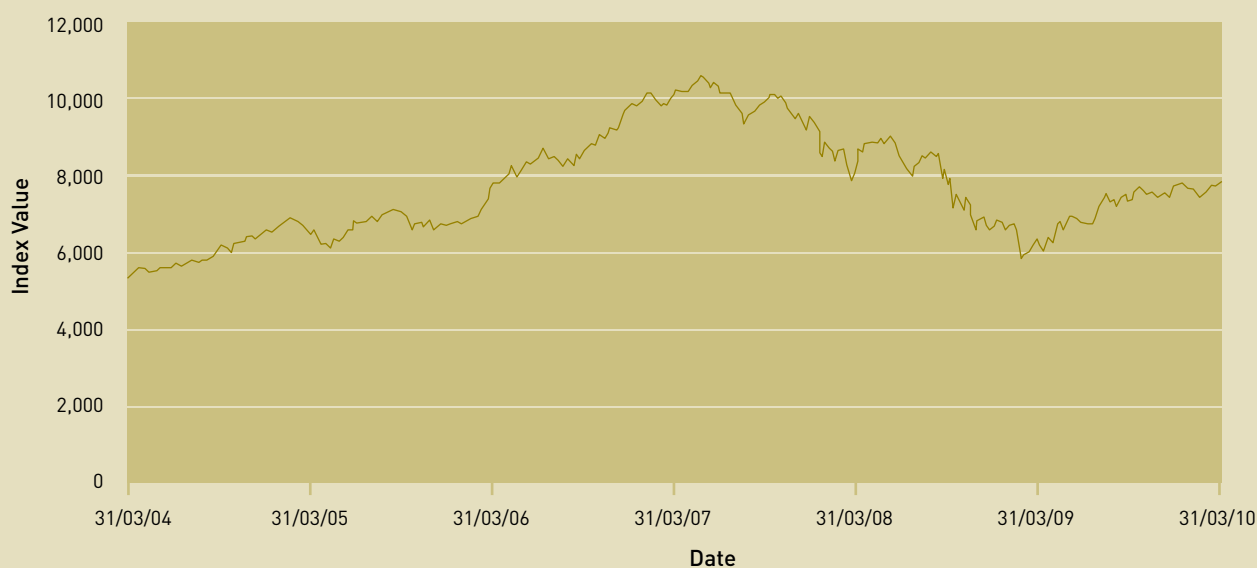
For the year to 31 March 2010, the NZX Midcap Index fund (smartMIDZ) returned positive 16.32% before the payment of any dividends. For the full year, distributions totalled 7.87 cents per unit gross*. This equated to a gross dividend yield of 3.56% based on the market close price as at 31 March 2010 (market close price at 31 March 2010: \$2.21).

smartMIDZ had 16.87 million units on issue with a market capitalization of \$37.7 million as at 31 March 2010.

Index performance

The NZX Midcap Gross Index, which includes any dividends paid, returned positive 22.68% over the year. During the last five years the NZX Midcap Gross Index has had an annualized return of 2.60% per annum.

Performance of the NZX Midcap Gross Index (NZD)



Key metrics for the Financial Year ended 31 March 2010

	31 March 2010	31 March 2009	31 March 2008	31 March 2007**	31 March 2006
NZX Midcap Capital Index	2,236.98	1,877.87	2,679.71	3,351.10	3,320.35
Net assets per unit	\$2.24	\$1.877	\$2.680	\$3.351	\$3.320
Distribution per unit over year*	7.87 cents	13.26 cents	13.57 cents	NIL	9.48 cents
Number of Unitholders	2,111	2,211	2,244	2,210	2,125
Units on Issue	16,851,352	17,280,769	17,039,709	16,613,399	16,506,647
Total value of Unitholders' funds (at close prices)	\$37,700,344	\$32,437,889	\$45,661,228	\$55,171,951	\$54,807,913

*Before the deduction of management fees

**The year end for the fund has been changed from December to March. The data quoted is for the three months to 31st March 2007



NZX Midcap Index Fund

Report to Unitholders



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

Presented by Smartshares Limited, Manager of the NZX Midcap Index Fund

Financial Statements

Statement of Comprehensive Income | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Income			
Dividends		2,022	2,336
Other income		-	46
Net changes in fair value of financial assets		6,405	(13,743)
Total Revenue		8,427	(11,361)
Management fees	7	286	319
Increase/(Decrease) in Net Assets Attributable to Unitholders Before Tax		8,141	(11,680)
Tax expense	4	24	102
Increase/(Decrease) in Net Assets Attributable to Unitholders After Tax		8,117	(11,782)

Changes in Net Assets Attributable to Unitholders | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Net assets attributable to Unitholders at beginning of period		31,999	45,201
Increase/(Decrease) in net assets attributable to Unitholders this period		8,117	(11,782)
Net subscriptions (redeemed)/allotted	5	(953)	541
Distribution accrued to Unitholders	6	(1,712)	(1,961)
Net Assets Attributable to Unitholders at End of Period		37,451	31,999

These financial statements should be read in conjunction with the notes on pages 25-33.

Balance Sheet | As at 31 March 2010

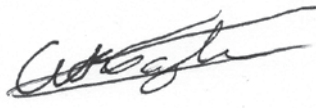
	Note	2010 \$000	2009 \$000
Current Assets			
Cash at call		915	925
Accounts receivable		198	156
Taxation receivable		75	123
Total Current Assets		1,188	1,204
Non-Current Assets			
Investments in equity securities held at fair value	8	37,451	31,999
Total Non-Current Assets		37,451	31,999
Total Assets		38,639	33,203
Current Liabilities			
Management fees payable	7	25	22
Funds held for unit purchases		61	110
Distribution payable to Unitholders	6	1,102	1,072
Total Liabilities excluding Net Assets Attributable to Unitholders		1,188	1,204
Net Assets attributable to Unitholders		37,451	31,999

These financial statements should be read in conjunction with the notes on pages 25-33.

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 25 May 2010.



F MACKENZIE | CHAIRMAN
Smartshares Limited



G TAYLOR | DIRECTOR
Smartshares Limited

Cash Flow Statement | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Cash Flows from Operating Activities			
Cash was provided from:			
Dividends received		1,980	2,394
Other income received		-	22
Tax received/(paid) directly by the Fund	4	24	(64)
Cash inflows from operating activities		2,004	2,352
Cash was applied to:			
Management fees paid		(283)	(329)
Cash outflows from operating activities		(283)	(329)
Net Cash Flows from Operating Activities		1,721	2,023
Cash Flows from Investing Activities			
Cash was applied to:			
Net payments made by Fund Manager on behalf / (to Fund Manager)		-	(221)
Cash outflows from investing activities		-	(221)
Net Cash Flows from Investing Activities		-	(221)
Cash Flows from Financing Activities			
Cash was provided from:			
Savings plan & direct purchase deposits		687	914
Cash inflows from financing activities		687	914
Cash was applied to:			
Purchase of financial assets		(736)	(872)
Distributions paid to Unitholders	6	(1,183)	(956)
Distributions paid for dividend reinvestment	6	(499)	(818)
Cash outflows from financing activities		(2,418)	(2,646)
Net Cash Flows from Financing Activities		(1,731)	(1,732)
Net (decrease)/increase in cash held		(10)	70
Opening cash balance		925	855
Cash at End of Period		915	925
Reconciliation of Increase/(Decrease) in Net Assets Attributable to Unitholders after Tax with Net Cash Flows from Operating Activities			
Increase/(Decrease) in net assets attributable to Unitholders		8,117	(11,782)
Less non-cash items:			
Net changes in fair value of financial assets		(6,405)	13,743
Operating movement in taxation receivable/payable		48	39
Movement in management fee payable		3	(8)
Movement in accounts receivable		(42)	31
Net Cash Flows from Operating Activities		1,721	2,023

These financial statements should be read in conjunction with the notes on pages 25-33.

Notes to the Financial Statements

1. General Information

The NZX Midcap Index Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established in New Zealand under the Trustee Companies Act 1967 and a Trust Deed dated 7 May 1996. The Fund is an Issuer as defined in the Financial Reporting Act 1993 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders and distributions are confined only to dividends received from the portfolio of investments. All changes in the value of investments, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager') tracking the NZX Midcap Index (the 'Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are listed and traded on the NZX NZSX Market. Investments are valued at fair value according to last bid prices on the NZX NZSX market on 31 March 2010 (see Note 8).

2. 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 to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), being the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). 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 this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar (NZD), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

2.2 Financial Assets at Fair Value through Profit or Loss

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the 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.

Notes to the Financial Statements

Continued

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

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

2.3 Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities are those activities that relate to cash contributions from or cash distributions to Unitholders.

Subscriptions subsequent to the initial public offering can be made in the form of baskets of constituent securities of the Index (i.e. not for cash) and therefore have not been included in the Cash Flow Statement. Redemptions can also be made in the form of baskets and therefore have not been included in the Cash Flow Statement.

2.4 Redeemable Units

The Fund issues redeemable units, which are redeemable at the Unitholder's option and are classified as financial liabilities. Redeemable units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for securities of the constituent companies in proportion to the index. The redeemable unit is carried at the proportion of the Fund's net asset value at the balance sheet date.

Redeemable units are issued and redeemed at the Unitholder's option at prices based on the Fund's net assets value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders of redeemable units by the total number of outstanding redeemable 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.

2.5 Dividend Revenue

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

2.6 Distributions Payable to Holders of Redeemable Units

Dividend income from investments is attributed to Unitholders on the basis of the number of units held at the entitlement date of the income. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distribution of this income for the year ending 31 March 2010 was made as at 20 June (record date 31 May) and 20 December (record date 30 November). For the year ending 31 March 2011, distributions will be made as at 20 April (record date 31 March) and 20 October (record date 30 September).

2.7 Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity (PIE).

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method) from the entities listed in Note 8. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.8 Changes in Accounting Policies

There have been no material changes to accounting policies during the period.

2.9 Comparatives

Comparative figures where necessary have been restated to correspond to the current year classifications.

3. Financial Risk Management

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Fund does not have exposure to currency risk or interest rate risk.

3.1 Market price risk

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Fund Manager does not manage this risk.

3.2 Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities held at fair value. The maximum credit risk of financial instruments is considered to be fair value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

	Mar 2010 \$000	Mar 2009 \$000
Cash	915	925
Accounts receivable	198	156
Investments in equity securities at fair value	37,451	31,999

3.3 Liquidity risk

The Fund's listed securities are considered readily realisable, as they are listed on the NZX NZSX market.

Notes to the Financial Statements

Continued

4. Taxation

	Year Ended Mar 2010 \$000	Year Ended Mar 2009 \$000
Income tax expense		
Increase/(Decrease) in net assets attributable to Unitholders before tax	8,141	(11,680)
Add back management fees	286	319
Add back net changes in fair value of financial assets	(6,405)	13,743
Movement in fully imputed accrued dividends	(43)	32
Non-taxable receipts	(581)	(589)
Gross up of imputation credits	558	682
Gross up of Dividend Withholding Payment (DWP) credits	7	21
Taxable income	1,963	2,528
Taxation at 30%	589	758
Less imputation credits, DWP and foreign income tax credits	(550)	(656)
Prior period adjustment	(15)	-
Tax expense	24	102
Imputation credits		
Opening balance	185	404
Imputation credits received during the period	558	682
Net tax (received)/paid during the period	(24)	64
	719	1,150
Credits attached to distributions paid	(569)	(965)
Credits available for future distributions	150	185
Dividend withholding payment credits		
Opening balance	20	20
DWP credits received during the period	7	20
Credits attached to distributions paid	(20)	(20)
Closing balance	7	20

5. Redeemable Units

All issued units are fully paid and redeemable, and have been admitted to the official listing of the NZX NZSX Market. The Fund's capital is represented by these redeemable units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Net Assets Attributable to Unitholders.

To determine the net asset value of the Fund for subscriptions and redemptions, financial assets have been valued based on the last traded market prices as of the close of business on the relevant trading day.

6. Distribution to Unitholders

	Total attributed to Unitholders Mar 2010 \$000	Total attributed to Unitholders Mar 2009 \$000
Distribution payable at beginning of period	1,072	885
Distribution accrued to Unitholders	1,712	1,961
	2,784	2,846
Distributed to Unitholders	(1,682)	(1,774)
Distribution payable to Unitholders	1,102	1,072

7. Related Parties

The Fund is managed by Smartshares Limited (the 'Investment Manager'), a wholly owned subsidiary of NZX Limited. Smartshares Limited receives management fees directly from the Unitholders. Under the Trust Deed the Investment Manager pays the Trustee, Custodian, Registrar and Auditor in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total management fees for the year ended 31 March 2010 amounted to \$286,000 (Year Ended ending 31 March 2009 \$319,000), with \$25,000 (March 2009: \$22,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2010 the Fund has no payables to Smartshares Limited (March 2009: \$nil).

The audit fee paid by the manager for the audit of the Fund for the year to 31 March 2010 was \$4,000 (2009: \$4,000).

Notes to the Financial Statements

Continued

8. Investments in Equity Securities held at Fair Value as at 31 March 2010

Company	Number of Securities	Fair Value \$
Air New Zealand Limited	1,010,601	1,273,357
AMP NZ Office Trust	3,156,535	2,367,401
Cavalier Corporation Limited	127,904	342,783
Ebos Group Limited	179,437	1,168,135
Fisher & Paykel Appliances Holdings Limited	2,259,107	1,378,055
Freightways Limited	598,875	1,892,445
Goodman Property Trust	2,894,995	2,894,995
Hallenstein Glasson Holdings Limited	141,011	472,387
ING Medical Properties Trust	367,479	437,300
ING Property Trust	1,438,935	1,064,812
Kathmandu Holdings Limited	247,231	603,244
Mainfreight Limited	314,470	1,993,740
Michael Hill International Limited	514,181	359,927
Nuplex Industries Limited	740,044	2,567,953
New Zealand Oil & Gas Limited	1,516,906	2,336,035
New Zealand Refining Company Limited	130,478	519,302
NZ Farming Systems Uruguay Limited	371,180	137,337
NZX Limited	454,774	854,975
Property for Industry Limited	836,532	978,742
Pyne Gould Corp Limited	2,563,807	1,204,989
PGG Wrightson Limited	1,487,368	847,800
Port of Tauranga Limited	235,477	1,636,565
Pumpkin Patch Limited	481,209	1,039,411
Pike River Coal Limited	759,293	698,550
Rakon Limited	417,609	409,257
Restaurant Brands (NZ) Limited	277,591	557,958
Sanford Limited	191,169	864,084
Steel & Tube Holdings Limited	111,173	286,826
TrustPower Limited	205,318	1,486,502
Tower Limited	745,845	1,469,315
Vector Limited	954,331	2,004,095
The Warehouse Group Limited	347,463	1,302,986
		37,451,263

All financial assets are designated at inception as being at fair value through profit or loss. The fair value of financial assets is calculated using the last bid price. The fair value of financial assets held at 31 March 2010 was \$37,451,263. (Mar 2009: \$31,999,075). The investments are registered in the name of Custodial Services Limited, the Custodian of the Fund.

9. Unitholders' Funds

As at 31 March 2010 there were 16,851,352 (Mar 2009: 17,280,769) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of preparing the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2010 was \$2.237 (Mar 2009: \$1.877).

NZ IFRS requires that long quoted investment positions be valued at the closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2010 was \$2.222 (Mar 2009: \$1.852).

10. Events after the Balance Sheet Date

The Manager has implemented a series of changes to the Fund designed to simplify management fees and dividend distributions in respect of the Fund. The changes took effect from 1 April 2010.

The key changes are as follows:

- ▶ Simplification of the way the Fund distributes income to investors;
- ▶ Change of the management fee structure (resulting in a decrease of the management fee rate for investors who are currently in the highest fee brackets and with no increase in fee rate for any other investors); and
- ▶ Change in the method of calculation of the Net Asset Value (NAV).

Further details of the changes are set out below:

Discontinuation of Unitholder Distribution Account

The Manager has discontinued the use of the Unitholder Distribution Accounts (UDAs) for the Fund. This means that dividends and other income the Fund receives are retained in the Fund (and reflected in the unit price), and the Fund will make six-monthly distributions to Unitholders, with each Unitholder's entitlement based on the Unitholder's holding as at the Record Date for that distribution.

The proportionate share of each distribution by the Fund will be automatically reinvested (unless Unitholders elect to receive payment by direct credit instead) with any fees and expenses deducted directly from the Fund where applicable.

Management and other fees

From 1 April 2010 the Manager ceased charging management fees to the UDAs and is instead charging those fees to the Fund directly. Accordingly, management fees are reflected in the unit price, meaning a flat fee structure is achieved, rather than the tiered structure that previously applied and depended on the level of a Unitholder's investment. No investor will be charged management fees at a higher rate under the new structure.

The new fee structure from 1 April 2010 is set out to be 0.75% p.a. exclusive of GST: The management fee will be calculated daily as a percentage of the NAV of the Fund.

Notes to the Financial Statements

Continued

Calculation of Net Asset Value

Discontinuation of use of the UDAs allows the Manager to move to an “accrual-based” model for calculating the Fund’s NAV (which is the basis for its unit pricing). The move to an accrual based model means that NAV per unit includes not only the value of the underlying securities held in a Fund (which is the basis on which the NAV was previously calculated), but also accrued income in relation to the portfolio (for example, dividends and tax credits) less liabilities (for example, tax expense, management fees). Please note that these examples of income and liabilities are not exhaustive and other types of income may be received and liabilities incurred from time to time.

Distributions

From 1 April 2010, a Unitholder’s distribution entitlement is determined based on whether that Unitholder holds units at the Record Date set for the Fund’s six-monthly distribution. Distribution rates per unit will be the same for all investors within the Fund.

The Manager is not obliged to issue units in the Fund in the period from (and including) the announcement of a distribution to (and including) the Ex Date (as defined in the NZSX Listing Rules) for that distribution (as unit issues during that period could result in an increased number of units on issue, which would in turn result in a decrease in the announced distribution on a per unit basis).

The Manager may, at its discretion, deduct from any distribution an amount of cash if and to the extent that the Manager reasonably considers that such a deduction is required to meet any liabilities that become payable in the next (or later) distribution period incurred.

Tracking error

The Fund will continue to track the Capital Index applicable to the Fund as closely as possible. However, the retention of income within the Fund may lead to increased potential for tracking error during each distribution period. At the end of each distribution period, as all income is paid out of the Fund in the form of a dividend, the tracking error should realign at that time as the income will be distributed out of the Fund (with a corresponding decrease in the Fund’s NAV).

The portfolio of securities held by the Fund (which represents stocks held by the Fund in proportion to the index tracked by the Fund and does not include any income received) will continue to track the Capital Index in the same manner that the Fund has historically.

While there may be increased potential for tracking error due to the retention of income in the Fund, the Manager considers that this is outweighed by the benefits which result from the discontinuation of the UDAs and other changes to the Fund.

The Manager also considers that continuing to track the relevant Capital Index is preferable to a shift to tracking a “Gross” Index, because a Gross Index is calculated on the assumption that all dividends paid are reinvested in the relevant company in the Index, whereas the Fund may receive those dividends in cash. This mismatch could result in a greater divergence between the index level (which will fluctuate depending on the performance of the companies and the assumed reinvestment of dividends) and the NAV of the Fund. The Manager’s expectation is that this mismatch could lead to a far greater tracking difference than is likely to occur if the Fund continues to track the Capital Index, and that correcting this tracking difference in a manner which does not compromise Unitholders’ interests could be difficult.

The Manager may charge to the Fund the costs of reducing or eliminating a tracking difference. However this will not be exercised in relation to a tracking difference that results from retaining income within the Fund as it is expected that this tracking difference will “clear” at the end of each distribution period.

11. Contingent Liabilities

There are no known contingent liabilities as at balance date (Mar 2009: nil).

12. Issued but not yet effective accounting standards

NZ IAS 7 Statement of Cash Flows states that only expenditure that results in a recognised asset can be classified as cash flow from investing activities. This change may require a reclassification of Investing Activities within the Statement of Cash Flows.

There are a number of other issued but not yet effective standards that the Fund has assessed as having either no impact or the impact has yet to be determined.

Unitholder Information

Distribution of security holders and security holdings as at 1 May 2010

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	208	9.92%	90,185	0.53%
1,001 to 5,000	918	43.78%	2,751,746	16.26%
5,001 to 10,000	536	25.56%	3,771,230	22.28%
10,001 to 100,000	425	20.27%	8,127,570	48.02%
100,001 and above	10	0.48%	2,184,676	12.91%
Total	2,097	100.00%	16,925,407	100.00%

20 Largest registered holders of quoted equity securities as at 1 May 2010

Full Name	Total	Percentage
Custodial Services Limited <3 A/C>	466,080	2.75
Custodial Services Limited <2 A/C>	326,272	1.93
Custodial Services Limited <8 A/C>	234,413	1.38
Accordia Nominees Limited	218,400	1.29
New Zealand Law Foundation	214,252	1.27
Guardian Trust Investment Nominees Limited	164,077	0.97
Mohua Limited	162,204	0.96
Citibank Nominees New Zealand Limited	153,032	0.90
Maori Investments Limited	127,061	0.75
HSBC Nominees (New Zealand) Limited <04-01687-231 A/C>	118,885	0.70
NZ Guardian Trust Co Limited <Hohepa Foundation General Fund A/C>	97,792	0.58
Dennis George Row & Joan Doran Row & SW Trust Services Limited <Avalon A/C>	82,067	0.48
Custodial Services Limited <4 A/C>	70,698	0.42
Daisy Joyce Burrell	66,292	0.39
Gavin Douglas Horne & Brett Richard Highsted <Atf Doug Horne Family A/C>	63,510	0.38
Craigs Investment Partners Limited	59,314	0.35
Geoffrey Wayne Smith	58,517	0.35
Keith Orsbourne Ballagh & Josephine Jane Frances Ballagh	56,916	0.34
Kerry Wayne Petersen & Beverly Petersen	56,395	0.33
Kathryn May Kelly & David Anderson Smith <Kelly Dickison A/C>	56,160	0.33
	2,852,337	16.85

Unitholder Information

Continued

Substantial Security Holders

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988, there were no substantial holders in the Fund as at 1 May 2010. The total number of units on issue at 1 May 2010 was 16,925,407.

Directors Interests in units as at 31 March 2010

	Beneficial	Non-Beneficial
Fiona Mackenzie (appointed 14 September 2009)	-	-
Geoffrey Brown (resigned 21 May 2010)	-	-
Damas Potoi (resigned 6 April 2010)	-	-

Waivers granted

The Special Division of New Zealand Markets Disciplinary Tribunal (formerly NZX Discipline) has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2010:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C and 3.6 – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.2.3 – Statements after Issues or Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- Appendix 2 – Minimum Holding



Audit report

To the Unitholders of NZX Midcap Index Fund

We have audited the financial statements on pages 22 to 33. The financial statements provide information about the past financial performance of NZX Midcap Index Fund (“the Fund”) and its financial position as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 25 to 27.

Managers’ responsibilities

The Fund Manager is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Fund as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Auditors’ responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Manager and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Manager in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Fund’s circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no relationship with or interests in the Fund.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Fund as far as appears from our examination of those records;
- the financial statements on pages 22 to 33:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the Fund as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 25 May 2010 and our unqualified opinion is expressed as at that date.

Wellington

NZX 50 Portfolio Index Fund (smartFONZ)

Performance for the Financial Year ended 31 March 2010

Fund performance

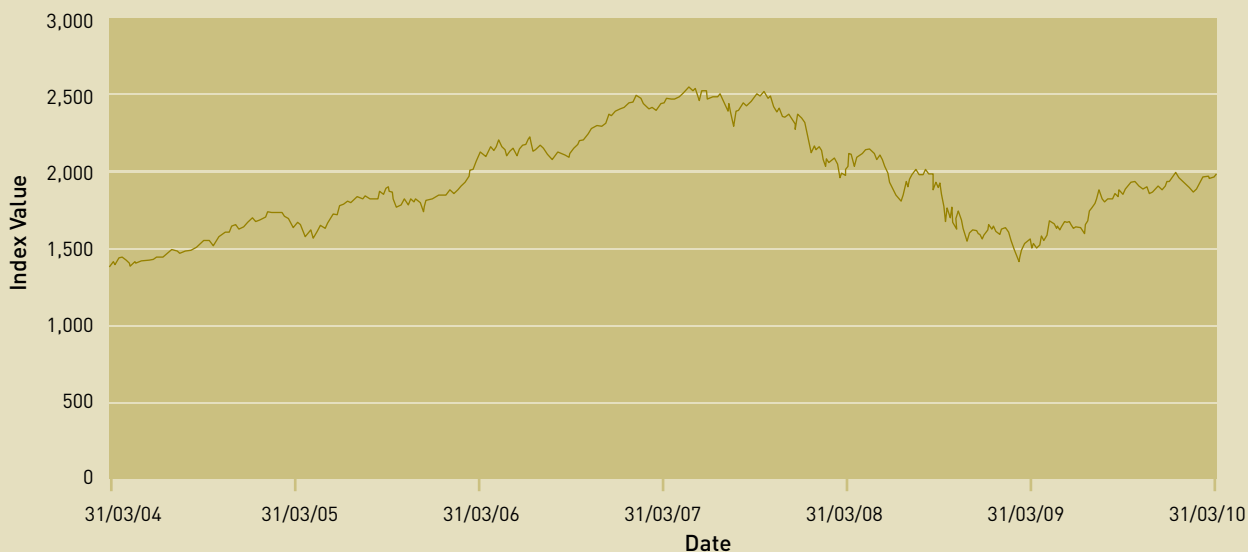
For the year to 31 March 2010, the NZX 50 Portfolio Index fund (smartFONZ) returned positive 19.91% before the payment of any dividends. For the full year, distributions totalled 5.08 cents per unit gross*. This equated to a gross dividend yield of 3.81% based on the market close price as at 31 March 2010 (market close price at 31 March 2010: \$1.33).

smartFONZ had 52.46 million units on issue with a market capitalization of \$70.0 million as at 31 March 2010.

Index performance

The NZX 50 Portfolio Gross Index, which includes any dividends paid, returned positive 30.15% over the year. During the last five years the NZX 50 Portfolio Index has had an annualized return of 5.95% per annum.

Performance of the NZX 50 Gross Index (NZD)



Key metrics for the Financial Year ended 31 March 2010

	31 March 2010	31 March 2009	31 March 2008	31 March 2007**	31 March 2006
NZX 50 Capital Index	1,335.99	1,077.30	1,513.45	1,894.14	1,893.50
Net assets per unit	\$1.335	\$1.076	\$1.511	\$1.905	\$1.894
Distribution per unit over year*	5.50 cents	6.40 cents	6.40 cents	NIL	5.89 cents
Number of Unitholders	2,869	2,853	3,118	2,922	2,786
Units on Issue	52,455,947	40,751,233	25,849,151	21,864,470	20,091,960
Total value of Unitholders' funds (at close prices)	\$70,006,148	\$43,854,197	\$39,070,627	\$41,414,257	\$38,044,207

*Before the deduction of management fees

**The year end for the fund has been changed from December to March. The data quoted is for the three months to 31st March 2007



NZX 50 Portfolio Index Fund

Report to Unitholders



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

Presented by Smartshares Limited, Manager of the NZX 50 Portfolio Index Fund

Financial Statements

Statement of Comprehensive Income | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Income			
Dividends		2,898	2,316
Net changes in fair value of financial assets		11,873	(13,945)
Total Revenue		14,771	(11,629)
Management fees	7	324	240
Increase/(Decrease) in Net Assets Attributable to Unitholders Before Tax		14,447	(11,869)
Tax expense	4	258	238
Increase/(Decrease) in Net Assets Attributable to Unitholders After Tax		14,189	(12,107)

Changes in Net Assets Attributable to Unitholders | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Net assets attributable to Unitholders at beginning of period		43,523	38,733
Increase/(Decrease) in net assets attributable to Unitholders this period		14,189	(12,107)
Net subscriptions allotted	5	14,632	18,735
Distribution accrued to Unitholders	6	(2,316)	(1,838)
Net Assets Attributable to Unitholders at End of Period		70,028	43,523

These financial statements should be read in conjunction with the notes on pages 43-51.

Balance Sheet | As at 31 March 2010

	Note	2010 \$000	2009 \$000
Current Assets			
Cash at call		1,110	1,129
Accounts receivable		425	250
Total Current Assets		1,535	1,379
Non-Current Assets			
Investments in equity securities held at fair value	8	70,028	43,523
Total Non-Current Assets		70,028	43,523
Total Assets		71,563	44,902
Current Liabilities			
Accounts payable		-	35
Management fees payable	7	33	50
Funds held for unit purchases		162	249
Distribution payable to Unitholders	6	1,275	1,015
Tax payable		8	8
Total Current Liabilities		1,478	1,357
Non-Current Liabilities			
Deferred tax	4	57	22
Total Non-Current Liabilities		57	22
Total Liabilities excluding Net Assets Attributable to Unitholders		1,535	1,379
Net Assets Attributable to Unitholders		70,028	43,523

These financial statements should be read in conjunction with the notes on pages 43-51.

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 25 May 2010.



F MACKENZIE | CHAIRMAN
Smartshares Limited



G TAYLOR | DIRECTOR
Smartshares Limited

Cash Flow Statement | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Cash Flows from Operating Activities			
Cash was provided from:			
Dividends received		2,723	2,281
Other		-	6
Cash inflows from operating activities		2,723	2,287
Cash was applied to:			
Management fees paid		(341)	(248)
Tax paid directly by the fund		(223)	10
Cash outflows from operating activities		(564)	(238)
Net Cash Flows from Operating Activities		2,159	2,049
Cash Flows from Investing Activities			
Cash was provided from:			
Net repayments from/(to) fund manager		3	(9)
Cash inflows from investing activities		3	(9)
Net Cash Flows from Investing Activities		3	(9)
Cash Flows from Financing Activities			
Cash was provided from:			
Savings plan & direct purchase deposits		9,214	5,160
Cash inflows from financing activities		9,214	5,160
Cash was applied to:			
Purchase of financial assets		(9,339)	(5,187)
Dividend reinvestment	6	(678)	(893)
Distributions directly to Unitholders	6	(1,378)	(639)
Cash outflows from financing activities		(11,395)	(6,719)
Net Cash Flows from Financing Activities		(2,181)	(1,559)
Net decrease in cash held		(19)	481
Opening cash balance		1,129	648
Cash at End of Period		1,110	1,129
Reconciliation of Increase/(Decrease) in Net Assets Attributable to Unitholders after Tax with Net Cash Flows from Operating Activities			
Increase/(Decrease) in net assets attributable to Unitholders		14,189	(12,107)
Less non-cash items:			
Net changes in fair value of financial assets		(11,873)	13,945
Operating movement in tax payable		-	330
Movement in deferred tax		35	2
Movement in management fees payable		(17)	4
Operating movement in accounts payable		-	(90)
Movement in accounts receivable		(175)	(35)
Net Cash Flows from Operating Activities		2,159	2,049

These financial statements should be read in conjunction with the notes on pages 43-51.

Notes to the Financial Statements

1. General Information

The NZX 50 Portfolio Index Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established in New Zealand under the Trustee Companies Act 1967 and a Trust Deed dated 15 October 2004. The Fund is an Issuer as defined in the Financial Reporting Act 1993 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders and distributions are confined only to dividends received from the portfolio of investments. All changes in the value of investments in equity securities, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager') tracking the NZX 50 Portfolio Index ('the Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are listed and traded on the NZX NZSX Market. Investments are valued at fair value according to last bid prices on the NZX NZSX market on 31 March 2010 (see Note 8).

2. 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 to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), being the New Zealand equivalents to International Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). 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 this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar (NZD), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

2.2 Financial Assets at Fair Value through Profit or Loss

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the 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.

Notes to the Financial Statements

Continued

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

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

2.3 Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities are those activities that relate to cash contributions from or cash distributions to Unitholders.

Subscriptions subsequent to the initial public offering can be made in the form of baskets of constituent securities of the Index (i.e. not for cash) and therefore have not been included in the Cash Flow Statement. Redemptions can also be made in the form of baskets and therefore have not been included in the Cash Flow Statement.

2.4 Redeemable Units

The Fund issues redeemable units, which are redeemable at the Unitholder's option and are classified as financial liabilities. Redeemable units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus for securities of the constituent companies in proportion to the index. The redeemable unit is carried at the proportion of the Fund's net asset value at the balance sheet date.

Redeemable units are issued and redeemed at the Unitholder's option at prices based on the Fund's net assets value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders of redeemable units by the total number of outstanding redeemable 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.

2.5 Dividend Revenue

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

2.6 Distributions Payable to Holders of Redeemable Units

Dividend income from investments is attributed to Unitholders on the basis of the number of units held at the entitlement date of the income. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distribution of this income for the year ending 31 March 2010 was made as at 20 March (record date 28 February) and 20 September (record date 31 August). For the year ending 31 March 2011, distributions will be made as at 20 April (record date 31 March) and 20 October (record date 30 September).

2.7 Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity (PIE).

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method) from the entities listed in Note 8. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.8 Changes in Accounting Policies

There have been no material changes to accounting policies during the period.

2.9 Comparatives

Comparative figures where necessary have been restated to correspond to the current year classifications.

3. Financial Risk Management

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Fund does not have exposure to currency risk or interest rate risk.

3.1 Market price risk

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Fund Manager does not manage this risk.

3.2 Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities held at fair value. The maximum credit risk of financial instruments is considered to be fair value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

	Mar 2010 \$000	Mar 2009 \$000
Cash	1,110	1,129
Accounts receivable	425	250
Investments	70,028	43,523

3.3 Liquidity risk

The Fund's listed securities are considered readily realisable, as they are listed on the NZX NZSX market.

Notes to the Financial Statements

Continued

4. Taxation

	Year Ended Mar 2010 \$000	Year Ended Mar 2009 \$000
Income tax expense		
Increase/(Decrease) in net assets attributable to Unitholders before tax	14,447	(11,869)
Add back management fees	324	240
Add back net changes in fair value of financial assets	(11,873)	13,945
Non-taxable income	(398)	(286)
Movement in fully imputed accrued dividends	(55)	(29)
Gross up of FWT & RWT withheld on dividends	33	17
Gross up of imputation credits	591	584
Capital Distributions	(47)	-
Taxable income	3,022	2,602
Taxation at 30%	906	781
Less imputation credits and other tax credits	(612)	(571)
Prior period adjustment	(36)	28
Tax expense	258	238
Deferred Tax		
Opening balance	(22)	(20)
Current year movement	(35)	(2)
Closing balance	(57)	(22)
Imputation credits		
Opening balance	190	231
Imputation credits received during the period	591	584
Net tax paid during the period	82	77
	863	892
Credits attached to distributions paid	(768)	(702)
Prior period adjustment	(74)	-
Credits available for future distributions	21	190
Dividend withholding payment credits		
Opening balance	11	77
DWP credits received during the period	-	9
Credits attached to distributions paid	(105)	(114)
Net tax paid during the period	141	39
Prior period adjustment	(31)	-
Closing balance	16	11

5. Redeemable Units

All issued units are fully paid and redeemable, and have been admitted to the official listing of the NZX NZSX market. The Fund's capital is represented by these redeemable units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Net Assets attributable to Unitholders.

To determine the net asset value of the Fund for subscriptions and redemptions, financial assets have been valued based on the last traded market prices as of the close of business on the relevant trading day.

6. Distribution to Unitholders

	Total attributed to Unitholders Mar 2010 \$000	Total attributed to Unitholders Mar 2009 \$000
Distribution payable at beginning of period	1,015	709
Distribution accrued to Unitholders	2,316	1,838
	3,331	2,547
Distributed to Unitholders	(2,056)	(1,532)
Distribution payable to Unitholders	1,275	1,015

7. Related Parties

The Fund is managed by Smartshares Limited (the 'Investment Manager'), a wholly owned subsidiary of NZX Limited. Smartshares Limited receives management fees directly from the Unitholders. Under the Trust Deed the Investment Manager pays the Trustee, Custodian, Registrar and Auditor in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total management fees for the year ended 31 March 2010 amounted to \$324,000 (year ending 31 March 2009 \$240,000), with \$33,000 (Mar 2009: \$50,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2009 the Fund had payables to Smartshares Limited of \$nil (Mar 2009: \$29,000).

The audit fee paid by the manager for the audit of the Fund for the year to 31 March 2010 was \$4,000 (2009: \$4,000).

Notes to the Financial Statements

Continued

8. Investments in Equity Securities held at Fair Value as at 31 March 2010

Company	Number of Securities	Fair Value \$
Air New Zealand Limited	744,316	937,838
AMP Limited	115,899	932,987
AMP Office Trust	2,324,815	1,743,611
Australia and New Zealand Banking Group Limited	57,467	1,879,171
APN News & Media Limited	518,307	1,503,090
Auckland Intl Airport Limited	1,826,012	3,487,683
Cavalier Corporation Limited	94,202	252,461
Contact Energy Limited	409,529	2,604,604
Ebos Group Limited	132,157	860,342
Fisher & Paykel Appliance Holdings Limited	1,663,851	1,014,949
Fisher & Paykel Healthcare Corporation Limited	843,257	2,765,883
Fletcher Building Limited	453,610	3,787,644
Freightways Limited	441,077	1,393,803
Goodman Fielder Limited	1,130,493	2,159,242
Goodman Property Trust	2,132,188	2,132,188
Guinness Peat Group Plc	3,810,894	3,239,260
Hallenstein Glasson Holdings Limited	103,856	347,918
Infratil Limited	1,631,945	2,806,945
ING Medical Properties Trust	270,651	322,075
ING Property Trust	1,059,788	784,243
Kathmandu Holdings Limited	182,088	444,295
Kiwi Income Property Trst	2,318,266	2,318,266
Mainfreight Limited	231,610	1,468,407
Michael Hill International Limited	378,699	265,089
NZX Limited	334,945	629,697
New Zealand Oil & Gas Limited	1,117,214	1,720,510
Nuplex Industries Limited	545,049	1,891,320
NZ Farming Systems Uruguay Limited	273,377	101,149
NZ Refining Company Limited	96,098	382,470
Pan Pacific Petroleum NL	226,827	70,316
PGG Wrightson Limited	1,095,460	624,412
Pike River Coal Limited	559,226	514,488
Port of Tauranga Limited	173,430	1,205,339
Property For Industry Limited	616,113	720,852
Pumpkin Patch Limited	354,415	765,536
Pyne Gould Corporation Limited	1,888,266	887,485
Rakon Limited	307,573	301,422
Restaurant Brands Limited	204,448	410,940
Ryman Healthcare Limited	1,435,869	2,972,249
Sanford Limited	140,798	636,407
SKYCITY Entertainment Limited	589,507	1,892,317
Sky Network Television Limited	851,629	4,547,699
Steel & Tube Holdings Limited	81,879	211,248
Telecom Corporation of New Zealand Limited	967,099	2,088,934

8. Investments in Equity Securities held at Fair Value as at 31 March 2010 (cont.)

Company	Number of Securities	Fair Value \$
Telstra Corporation Limited	48,658	188,306
The Warehouse Group Limited	255,909	959,659
Tower Limited	549,321	1,082,162
TrustPower Limited	151,219	1,094,826
Vector Limited	702,873	1,476,033
Westpac Banking Corporation	88,890	3,200,040
		70,027,810

All financial assets are designated at inception as being at fair value through profit or loss. The fair value of financial assets is calculated using the last bid price. The fair value of financial assets held at 31 March 2010 was \$70,027,810 (Mar 2009: \$43,522,596). The investments are registered in the name of JB Were (NZ) Nominees Limited, the Custodian of the Fund.

9. Unitholders' Funds

As at 31 March 2010 there were 52,455,947 (Mar 2009: 40,751,233) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of preparing the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2010 was \$1.3346 (Mar 2009: \$1.0761).

NZ IFRS requires that long quoted investment positions be valued at the closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2010 was \$1.3350 (Mar 2009: \$1.0680).

10. Events after the Balance Sheet Date

The Manager has implemented a series of changes to the Fund designed to simplify management fees and dividend distributions in respect of the Fund. The changes took effect from 1 April 2010.

The key changes are as follows:

- ▶ Simplification of the way the Fund distributes income to investors;
- ▶ Change of the management fee structure (resulting in a decrease of the management fee rate for investors who are currently in the highest fee brackets and with no increase in fee rate for any other investors); and
- ▶ Change in the method of calculation of the Net Asset Value (NAV).

Notes to the Financial Statements

Continued

Further details of the changes are set out below:

Discontinuation of Unitholder Distribution Account

The Manager has discontinued the use of the Unitholder Distribution Accounts (UDAs) for the Fund. This means that dividends and other income the Fund receives are retained in the Fund (and reflected in the unit price), and the Fund will make six-monthly distributions to Unitholders, with each Unitholder's entitlement based on the Unitholder's holding as at the Record Date for that distribution.

Management and other fees

From 1 April 2010 the Manager ceased charging management fees to the UDAs and is instead charging those fees to the Fund directly. Accordingly, management fees are reflected in the unit price, meaning a flat fee structure is achieved, rather than the tiered structure that previously applied and depended on the level of a Unitholder's investment. No investor will be charged management fees at a higher rate under the new structure.

The new fee structure from 1 April 2010 is set out to be 0.75% p.a. exclusive of GST: The management fee will be calculated daily as a percentage of the NAV of the Fund.

Calculation of Net Asset Value

Discontinuation of use of the UDAs allows the Manager to move to an "accrual-based" model for calculating the Fund's NAV (which is the basis for its unit pricing). The move to an accrual based model means that NAV per unit includes not only the value of the underlying securities held in a Fund (which is the basis on which the NAV was previously calculated), but also accrued income in relation to the portfolio (for example, dividends and tax credits) less liabilities (for example, tax expense, management fees). Please note that these examples of income and liabilities are not exhaustive and other types of income may be received and liabilities incurred from time to time.

Distributions

From 1 April 2010, a Unitholder's distribution entitlement is determined based on whether that Unitholder holds units at the Record Date set for the Fund's six-monthly distribution. Distribution rates per unit will be the same for all investors within the Fund.

The Manager is not obliged to issue units in the Fund in the period from (and including) the announcement of a distribution to (and including) the Ex Date (as defined in the NZSX Listing Rules) for that distribution (as unit issues during that period could result in an increased number of units on issue, which would in turn result in a decrease in the announced distribution on a per unit basis).

The Manager may, at its discretion, deduct from any distribution an amount of cash if and to the extent that the Manager reasonably considers that such a deduction is required to meet any liabilities that become payable in the next (or later) distribution period incurred.

Tracking error

The Fund will continue to track the Capital Index applicable to the Fund as closely as possible. However, the retention of income within the Fund may lead to increased potential for tracking error during each distribution period. At the end of each distribution period, as all income is paid out of the Fund in the form of a dividend, the tracking error should realign at that time as the income will be distributed out of the Fund (with a corresponding decrease in the Fund's NAV).

The portfolio of securities held by the Fund (which represents stocks held by the Fund in proportion to the index tracked by the Fund and does not include any income received) will continue to track the Capital Index in the same manner that the Fund has historically.

While there may be increased potential for tracking error due to the retention of income in the Fund, the Manager considers that this is outweighed by the benefits which result from the discontinuation of the UDAs and other changes to the Fund.

The Manager also considers that continuing to track the relevant Capital Index is preferable to a shift to tracking a "Gross" Index, because a Gross Index is calculated on the assumption that all dividends paid are reinvested in the relevant company in the Index, whereas the Fund may receive those dividends in cash. This mismatch could result in a greater divergence between the index level (which will fluctuate depending on the performance of the companies and the assumed reinvestment of dividends) and the NAV of the Fund. The Manager's expectation is that this mismatch could lead to a far greater tracking difference than is likely to occur if the Fund continues to track the Capital Index, and that correcting this tracking difference in a manner which does not compromise Unitholders' interests could be difficult.

The Manager may charge to the Fund the costs of reducing or eliminating a tracking difference. However this will not be exercised in relation to a tracking difference that results from retaining income within the Fund as it is expected that this tracking difference will "clear" at the end of each distribution period.

11. Contingent Liabilities

There are no known contingent liabilities as at balance date (Mar 2009: nil).

12. Issued but not yet effective accounting standards

NZ IAS 7 Statement of Cash Flows states that only expenditure that results in a recognised asset can be classified as cash flow from investing activities. This change may require a reclassification of Investing Activities within the Statement of Cash Flows.

There are a number of other issued but not yet effective standards that the Fund has assessed as having either no impact or the impact has yet to be determined.

Unitholder Information

Distribution of security holders and security holdings as at 1 May 2010

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	291	10.11%	103,463	0.19%
1,001 to 5,000	1,205	41.87%	3,480,211	6.51%
5,001 to 10,000	678	23.56%	4,764,419	8.91%
10,001 to 100,000	682	23.70%	14,586,535	27.29%
100,001 and above	22	0.76%	30,520,974	57.10%
Total	2,878	100.00%	53,455,602	100.00%

20 Largest registered holders of quoted equity securities as at 1 May 2010

Full Name	Total	Percentage
Investment Custodial Services Limited <C A/C>	17,943,064	33.57%
NZGT Superannuation Trustees Limited <Smartkiwi Growth Fund A/C>	4,033,141	7.54%
FNZ Custodians Limited	2,843,130	5.32%
Cole James Investments Ltd	1,583,392	2.96%
NZGT Superannuation Trustees Limited <Smartkiwi Balanced Fund A/C>	923,095	1.73%
Presbyterian Church Property Trustees	380,231	0.71%
Citibank Nominees New Zealand Limited	323,975	0.61%
Mohua Limited	292,293	0.55%
Custodial Services Limited <3 A/C>	242,126	0.45%
Custodial Services Limited <2 A/C>	237,369	0.44%
National Nominees Limited	200,300	0.37%
NZGT Superannuation Trustees Limited <Smartkiwi Conservative Fund A/C>	197,673	0.37%
Investment Custodial Services Limited <R A/C>	194,553	0.36%
Tamaoho Waaka Vercoe, Charles Ohaki Elliott & Beverley Nawarihi Hughes <Putauaki A/C>	183,492	0.34%
Oceanpro Holdings Limited	138,319	0.26%
HSBC Nominees (New Zealand) Limited <04-025173-100 A/C>	133,350	0.25%
Trevor Paul Fitzjohn & John Livingston Marshall	129,573	0.24%
Martin Klaus Zuba	115,478	0.22%
HSBC Nominees (New Zealand) Limited <04-022709-106 A/C>	111,000	0.21%
Tahi Ventures Limited	110,100	0.21%
	30,315,654	56.71%

Unitholder Information

Continued

Substantial Security Holders

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988, NZGT Superannuation Trustees Limited <Smartkiwi Growth Fund A/C> was a substantial holder in the Fund as at 1 May 2010 with 4,033,141 units. The total number of units on issue at 1 May 2010 was 53,455,602.

Directors Interests in units as at 31 March 2010

	Beneficial	Non-Beneficial
Fiona Mackenzie (appointed 14 September 2009)	-	-
Geoffrey Brown (resigned 21 May 2010)	-	-
Damas Potoi (resigned 6 April 2010)	-	-

Waivers granted

The Special Division of New Zealand Markets Disciplinary Tribunal (formerly NZX Discipline) has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2010:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C and 3.6 – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.2.3 – Statements after Issues or Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- Appendix 2 – Minimum Holding.



Audit report

To the Unitholders of NZX 50 Portfolio Index Fund

We have audited the financial statements on pages 40 to 51. The financial statements provide information about the past financial performance of NZX 50 Portfolio Index Fund (“the Fund”) and its financial position as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 43 to 45.

Managers’ responsibilities

The Fund Manager is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Fund as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Auditors’ responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Manager and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Manager in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Fund’s circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no relationship with or interests in the Fund.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Fund as far as appears from our examination of those records;
- the financial statements on pages 40 to 51:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the Fund as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 25 May 2010 and our unqualified opinion is expressed as at that date.

Wellington

NZX Australian Midcap Index Fund (smartMOZY)

Performance for the Financial Year ended 31 March 2010

Fund performance

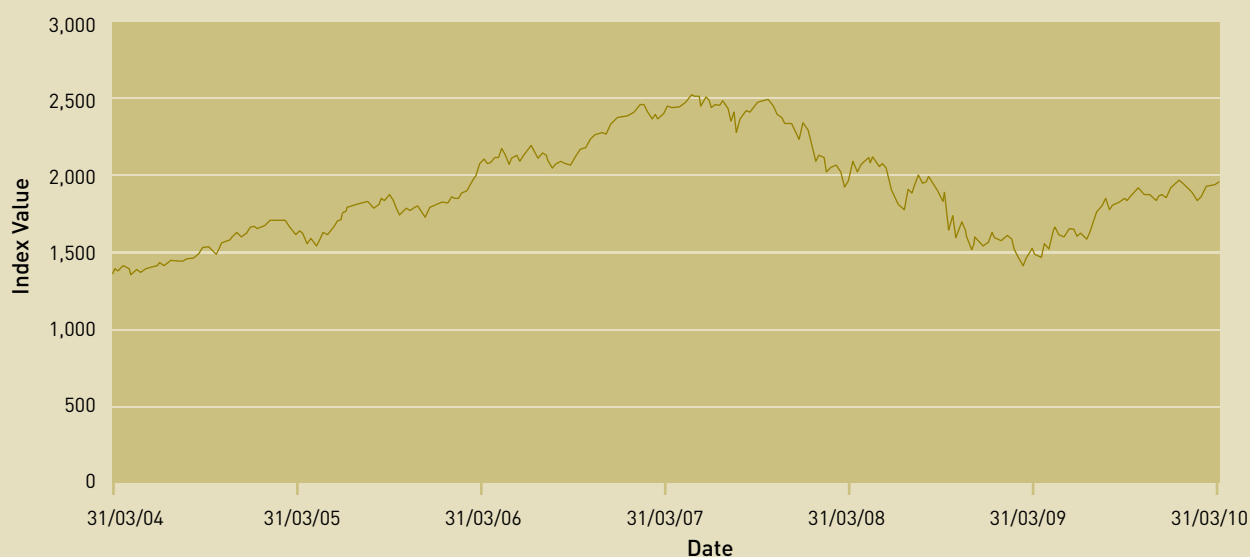
For the year to 31 March 2010, the NZX Australian Midcap Index fund (smartMOZY) returned positive 47.53% before the payment of any dividends. For the full year, distributions totalled 14.69 cents per unit gross*. This equated to a gross dividend yield of 2.67% based on the market close price as at 31 March 2010 (market close price at 31 March 2010: \$5.50).

smartMOZY had 10.02 million units on issue with a market capitalization of \$54.7 million as at 31 March 2010.

Index performance

The S&P/ASX Midcap 50 Accumulation Index, which includes any dividends paid, returned positive 45.15% over the year. During the last five years the S&P/ASX Midcap 50 Accumulation Index has had an annualized return of 9.03% per annum.

Performance of the S&P/ASX Midcap 50 Gross Index (NZD)



Key metrics for the Financial Year ended 31 March 2010

	31 March 2010	31 March 2009	31 March 2008	31 March 2007**	31 March 2006
S&P/ASX Midcap 50 Capital Index	4,336.23	3,742.55	6,376.82	7,042.49	6,568.94
Net assets per unit	\$5.50	\$3.67	\$6.31	\$7.04	\$6.56
Distribution per unit over year*	14.69 cents	20.12 cents	18.93 cents	10.29 cents	18.83 cents
Number of Unitholders	2,665	2,710	2,727	2,459	2,655
Units on Issue	9,975,701	9,764,047	9,365,281	9,339,744	9,338,457
Total value of Unitholders' funds (at close prices)	\$54,767,987	\$35,859,793	\$59,108,247	\$65,776,258	\$61,343,765

*Before the deduction of management fees

**The year end for the fund has been changed from December to March. The data quoted is for the three months to 31st March 2007



NZX Australian Midcap Index Fund

Report to Unitholders



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

Presented by Smartshares Limited, Manager of the NZX Australian Midcap Index Fund

Financial Statements

Statement of Comprehensive Income | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Income			
Dividends		1,713	2,139
Net changes in fair value of financial assets		18,384	(24,828)
Total Revenue		20,097	(22,689)
Management fees	7	368	371
Increase/(Decrease) in Net Assets Attributable to Unitholders Before Tax		19,729	(23,060)
Tax expense	4	459	537
Increase/(Decrease) in Net Assets Attributable to Unitholders After Tax		19,270	(23,597)

Changes in Net Assets Attributable to Unitholders | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Net assets attributable to Unitholders at beginning of period		35,361	58,475
Increase/(Decrease) in net assets attributable to Unitholders this period		19,270	(23,597)
Net subscriptions allotted	5	1,906	1,714
Distribution accrued to Unitholders	6	(886)	(1,231)
Net Assets Attributable to Unitholders at End of Period		55,651	35,361


These financial statements should be read in conjunction with the notes on pages 61-70.

Balance Sheet | As at 31 March 2010

	Note	2010 \$000	2009 \$000
Current Assets			
Cash at call		538	331
Accounts receivable		362	346
Taxation receivable		-	77
Total Current Assets		900	754
Non-Current Assets			
Investments in equity securities held at fair value	8	55,651	35,361
Total Non-Current Assets		55,651	35,361
Total Assets		56,551	36,115
Current Liabilities			
Accounts payable		-	58
Management fees payable	7	35	23
Funds held for unit purchases		122	169
Distribution payable to Unitholders	6	600	400
Taxation payable		43	-
Total Current Liabilities		800	650
Non-Current Liabilities			
Deferred tax	4	100	104
Total Non-Current Liabilities		100	104
Total Liabilities excluding Net Assets Attributable to Unitholders		900	754
Net Assets Attributable to Unitholders		55,651	35,361

These financial statements should be read in conjunction with the notes on pages 61-70.

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 25 May 2010.



F MACKENZIE | CHAIRMAN
Smartshares Limited



G TAYLOR | DIRECTOR
Smartshares Limited

Cash Flow Statement | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Cash Flows from Operating Activities			
Cash was provided from:			
Dividends received		1,727	2,165
Cash inflows from operating activities		1,727	2,165
Cash was applied to:			
Management fees paid		(386)	(432)
Tax paid directly by the fund		(343)	(512)
Cash outflows from operating activities		(729)	(944)
Net Cash Flows from Operating Activities		998	1,221
Cash Flows from Investing Activities			
Net repayments to Fund Manager		(58)	-
Cash outflows from investing activities		(58)	-
Net Cash Flows from Investing Activities		(58)	-
Cash Flows from Financing Activities			
Cash was provided from:			
Savings plan & direct purchase deposits		3,242	3,290
Proceeds from sale of investments	6	161	327
Cash inflows from financing activities		3,403	3,617
Cash was applied to:			
Purchase of financial assets		(3,289)	(3,324)
Distributions paid to Unitholders	6	(362)	(691)
Distributions paid for dividend reinvestment	6	(485)	(834)
Cash outflows from financing activities		(4,136)	(4,849)
Net Cash Flows from Financing Activities		(733)	(1,232)
Net increase/(decrease) in cash held		207	(11)
Opening cash balance		331	342
Cash at End of Period		538	331
Reconciliation of Increase/(Decrease) in Net Assets Attributable to Unitholders after Tax with Net Cash Flows from Operating Activities			
Increase/(Decrease) in net assets attributable to Unitholders After Tax		19,270	(23,597)
Less non-cash items:			
Net changes in fair value of financial assets		(18,384)	24,828
Operating movement in taxation receivable/payable		120	311
Movement in deferred tax		(4)	(8)
Movement in management fees payable		12	(60)
Movement in accounts receivable		(16)	27
Operating movement in accounts payable		-	(280)
Net Cash Flows from Operating Activities		998	1,221

These financial statements should be read in conjunction with the notes on pages 61-70.

Notes to the Financial Statements

1. General Information

The NZX Australian Midcap Index Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established under the Trustee Companies Act 1967 and a Trust Deed dated 10 August 2004. The Fund is an Issuer as defined in the Financial Reporting Act 1993 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders and distributions are confined only to dividends received from the portfolio of investments. All changes in the value of investments, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager'), tracking the ASX S&P Australian Midcap Index (the Index). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are listed and traded on the NZX NZSX market. Investments are valued at fair value according to last bid prices on the Australian Exchange on 31 March 2010 (see Note 8).

2. 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 to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), being the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). 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 this entity is the same as the presentation currency of these financial statements, being the New Zealand Dollar (NZD), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

2.2 Financial Assets at Fair Value through Profit or Loss

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the 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.

Notes to the Financial Statements

Continued

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

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

2.3 Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities are those activities that relate to cash contributions from or cash distributions to Unitholders.

Subscriptions subsequent to the initial public offering can be made in the form of baskets of constituent securities of the Index (i.e. not for cash) and therefore have not been included in the Cash Flow Statement. Redemptions can also be made in the form of baskets and therefore have not been included in the Cash Flow Statement.

2.4 Redeemable Units

The Fund issues redeemable units, which are redeemable at the Unitholder's option and are classified as financial liabilities. Redeemable units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus for securities of the constituent companies in proportion to the index. The redeemable unit is carried at the proportion of the Fund's net asset value at the balance sheet date.

Redeemable units are issued and redeemed at the Unitholder's option at prices based on the Fund's net assets value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders of redeemable units by the total number of outstanding redeemable 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.

2.5 Dividend Revenue

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

2.6 Distributions Payable to Holders of Redeemable Units

Dividend income from investments is attributed to Unitholders on the basis of the number of units held at the entitlement date of the income. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distribution of this income for the year ending 31 March 2010 was made as at 20 March (record date 28 February) and 20 September (record date 31 August). For the year ending 31 March 2011, distributions will be made as at 20 April (record date 31 March) and 20 October (record date 30 September).

2.7 Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity (PIE).

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method) from the entities listed in Note 8. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.8 Changes in Accounting Policies

There have been no material changes to accounting policies during the period.

2.9 Comparatives

Comparative figures where necessary have been restated to correspond to the current year classifications.

3. Financial Risk Management

The Fund's activities expose it to a variety of financial risk: market risk, credit risk, liquidity risk and currency risk. The Fund does not have exposure to interest rate risk.

3.1 Market price risk

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Fund Manager does not manage this risk.

3.2 Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities held at fair value. The maximum credit risk of financial instruments is considered to be fair value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

	Mar 2010	Mar 2009
	\$000	\$000
Cash	538	331
Accounts receivable	362	346
Investments	55,651	35,361

Notes to the Financial Statements

Continued

3.3 Currency risk

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in Australian dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

The table below summarises the Fund's exposure to currency risks.

NZD Concentration of assets and liabilities under AUD dollars

	Mar 2010 \$000	Mar 2009 \$000
Assets		
Investments in equity securities held at fair value	55,651	35,361

4. Taxation

	Year Ended Mar 2010 \$000	Year Ended Mar 2009 \$000
Income tax expense		
Increase/(Decrease) in net assets attributable to Unitholders before tax	19,729	(23,000)
Add back management fees	368	371
Less net changes in fair value of financial assets	(18,384)	24,768
Gross up of FWT withheld on dividends	12	18
Dividends subject to FDR regime	(580)	(768)
Taxable income on FDR securities	700	712
Income included for accounting, non-taxable	-	17
Gross up of imputation credits	26	11
Taxable income	1,871	2,129
Taxation at 30%	561	639
Less tax credits & imputation credits	(102)	(44)
Prior period adjustment	-	(58)
Tax expense	459	537
Deferred Tax		
Opening balance	(104)	(112)
Current year movement	4	8
Closing balance	(100)	(104)
Imputation credits		
Opening balance	1,051	917
Imputation credits received during the period	26	11
Net tax paid during the period	30	520
	1,107	1,448
Credits attached to distributions paid	(201)	(397)
Prior period adjustment	(482)	-
Credits available for future distribution	424	1,051
Dividend withholding payment credits		
Opening balance	2	259
Net tax paid during the period	314	196
	316	455
Credits attached to distributions paid	(313)	(453)
Closing balance	3	2

Notes to the Financial Statements

Continued

5. Redeemable Units

All issued units are fully paid and redeemable, and have been admitted to the official listing of the NZX NZSX market. The Fund's capital is represented by these redeemable units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Net Assets attributable to Unitholders.

To determine the net asset value of the Fund for subscriptions and redemptions, financial assets have been valued based on the last traded market prices as of the close of business on the relevant trading day.

6. Distribution to Unitholders

	Total attributed to Unitholders Mar 2010 \$000	Total attributed to Unitholders Mar 2009 \$000
Distribution payable at beginning of period	400	367
Distribution accrued to Unitholders	886	1,231
	1,286	1,598
Distributed to Unitholders	(847)	(1,525)
Transfer	161	327
Distribution payable to Unitholders	600	400

7. Related Parties

The Fund is managed by Smartshares Limited (the 'Investment Manager'), a wholly owned subsidiary of NZX Limited. Smartshares Limited receives management fees directly from the Unitholders. Under the Trust Deed the Investment Manager pays the Trustee, Custodian, Registrar and Auditor in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total management fees for the year to 31 March 2010 amounted to \$368,000 (Mar 2009 \$371,000), with \$35,000 (Mar 2009: \$23,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2010 the Fund has payables to Smartshares Limited of \$nil (Mar 2009 \$58,000).

The audit fee paid by the manager for the audit of the Fund for the year to 31 March 2010 was \$4,000 (2009: \$4,000).

8. Investments in Equity Securities held at Fair Value as at 31 March 2010

Company	Number of Securities	Fair Value A\$	Fair Value NZ\$
Aristocrat Leisure Limited	153,910	694,134	895,772
Ansell Limited	48,427	584,998	754,934
Arrow Energy Limited	218,380	1,098,451	1,417,540
APA Group	149,372	531,764	686,236
Aquarius Platinum Limited	132,358	906,652	1,170,025
Alumina Limited	885,076	1,522,331	1,964,551
Australia Worldwide Exploration Ltd	191,381	520,556	671,772
Billabong International	74,301	835,886	1,078,702
Bendigo Bank Limited	125,184	1,241,825	1,602,562
Boral Limited	213,493	1,195,561	1,542,858
Bank of Queensland Ltd	75,351	886,128	1,143,538
Boart Longyear Limited	1,648,648	552,297	712,733
ConnectEast Group	1,264,515	562,709	726,170
Centennial Coal Company Limited	140,313	596,330	769,558
Challenger Financial Services Group	166,675	696,702	899,086
Charter Hall Office Reit	1,469,591	418,833	540,500
Cochlear Limited	20,212	1,469,615	1,896,522
Commonwealth Property Office Fund	703,413	636,589	821,511
CSR Limited	553,518	913,305	1,178,610
Caltex Australia Limited	48,263	541,511	698,814
David Jones Limited	178,986	848,394	1,094,843
Downer EDI Limited	118,361	890,075	1,148,632
DUET Group	244,664	433,055	558,853
DEXUS Property Group	1,680,561	1,352,852	1,745,840
Energy Resources of Australia Limited	21,555	406,312	524,341
Fairfax Media	734,774	1,318,919	1,702,051
Goodman Fielder Limited	473,691	675,010	871,093
Goodman Group	2,218,542	1,453,145	1,875,268
Harvey Norman Holdings	204,367	739,809	954,715
Iluka Resources Limited	149,607	652,287	841,769
ING Office Fund	1,012,417	592,264	764,310
Intoll Group	822,368	921,052	1,188,608
JB Hi-Fi Limited	38,625	780,998	1,007,869
James Hardie Industries	154,780	1,123,703	1,450,126
Macquarie Airports	516,042	1,594,570	2,057,775
Mirvac Group	1,089,208	1,606,582	2,073,276
Myer Holdings Limited	207,894	696,445	898,755
Metcash Limited	274,437	1,133,425	1,462,672
Nufarm Limited	60,900	501,207	646,802
OZ Minerals Limited	1,114,763	1,276,404	1,647,185
Paladin Energy Limited	253,423	995,952	1,285,266
Perpetual Trustees Australia Ltd	15,180	535,095	690,534
Primary Health Care Limited	149,232	661,098	853,139
Seek Limited	116,745	935,127	1,206,772
Sims Group Limited	57,746	1,247,314	1,609,645

Notes to the Financial Statements

Continued

8. Investments in Equity Securities held at Fair Value as at 31 March 2010 (cont.)

Company	Number of Securities	Fair Value A\$	Fair Value NZ\$
Spark Infrastructure Group	329,114	394,937	509,662
Transfield Services Limited	126,596	511,448	660,018
Tatts Group Limited	455,148	1,115,113	1,439,041
United Group Limited	58,529	877,931	1,132,963
West Australian Newspapers Limited	57,147	446,890	576,706
		43,123,590	55,650,523

All financial assets are designated at inception as being at fair value through profit or loss. The fair value of financial assets is calculated using the last bid price. The fair value of financial assets held at 31 March 2010 was A\$43,123,590 where the New Zealand dollar equivalent was NZ\$55,650,523 (Mar 2009: NZ\$35,560,071). The investments are registered in the name of JB Were (NZ) Nominees Limited, the Custodian of the Fund.

9. Unitholders' Funds

As at 31 March 2010 there were 10,125,701 (Mar 2009: 9,764,047) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of preparing the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2010 was \$5.4901 (Mar 2009: \$3.6726).

NZ IFRS and IFRS requires that long quoted investment positions be valued at the closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2010 was \$5.4960 (Mar 2009: \$3.6216).

10. Events after the Balance Sheet Date

The Manager has implemented a series of changes to the Fund designed to simplify management fees and dividend distributions in respect of the Fund. The changes took effect from 1 April 2010.

The key changes are as follows:

- ▶ Simplification of the way the Fund distributes income to investors;
- ▶ Change of the management fee structure (resulting in a decrease of the management fee rate for investors who are currently in the highest fee brackets and with no increase in fee rate for any other investors); and
- ▶ Change in the method of calculation of the Net Asset Value (NAV).

Further details of the changes are set out below:

Discontinuation of Unitholder Distribution Account

The Manager has discontinued the use of the Unitholder Distribution Accounts (UDAs) for the Fund. This means that dividends and other income the Fund receives are retained in the Fund (and reflected in the unit price), and the Fund will make six-monthly distributions to Unitholders, with each Unitholder's entitlement based on the Unitholder's holding as at the Record Date for that distribution.

Management and other fees

From 1 April 2010 the Manager ceased charging management fees to the UDAs and is instead charging those fees to the Fund directly. Accordingly, management fees are reflected in the unit price, meaning a flat fee structure is achieved, rather than the tiered structure that previously applied and depended on the level of a Unitholder's investment. No investor will be charged management fees at a higher rate under the new structure.

The new fee structure from 1 April 2010 is set out to be 0.75% p.a. exclusive of GST: The management fee will be calculated daily as a percentage of the NAV of the Fund.

Calculation of Net Asset Value

Discontinuation of use of the UDAs allows the Manager to move to an "accrual-based" model for calculating the Fund's NAV (which is the basis for its unit pricing). The move to an accrual based model means that NAV per unit includes not only the value of the underlying securities held in a Fund (which is the basis on which the NAV was previously calculated), but also accrued income in relation to the portfolio (for example, dividends and tax credits) less liabilities (for example, tax expense, management fees). Please note that these examples of income and liabilities are not exhaustive and other types of income may be received and liabilities incurred from time to time.

Distributions

From 1 April 2010, a Unitholder's distribution entitlement is determined based on whether that Unitholder holds units at the Record Date set for the Fund's six-monthly distribution. Distribution rates per unit will be the same for all investors within the Fund.

The Manager is not obliged to issue units in the Fund in the period from (and including) the announcement of a distribution to (and including) the Ex Date (as defined in the NZSX Listing Rules) for that distribution (as unit issues during that period could result in an increased number of units on issue, which would in turn result in a decrease in the announced distribution on a per unit basis).

The Manager may, at its discretion, deduct from any distribution an amount of cash if and to the extent that the Manager reasonably considers that such a deduction is required to meet any liabilities that become payable in the next (or later) distribution period incurred.

Tracking error

The Fund will continue to track the Capital Index applicable to the Fund as closely as possible. However, the retention of income within the Fund may lead to increased potential for tracking error during each distribution period. At the end of each distribution period, as all income is paid out of the Fund in the form of a dividend, the tracking error should realign at that time as the income will be distributed out of the Fund (with a corresponding decrease in the Fund's NAV).

Notes to the Financial Statements

Continued

The portfolio of securities held by the Fund (which represents stocks held by the Fund in proportion to the index tracked by the Fund and does not include any income received) will continue to track the Capital Index in the same manner that the Fund has historically.

While there may be increased potential for tracking error due to the retention of income in the Fund, the Manager considers that this is outweighed by the benefits which result from the discontinuation of the UDAs and other changes to the Fund.

The Manager also considers that continuing to track the relevant Capital Index is preferable to a shift to tracking a "Gross" Index, because a Gross Index is calculated on the assumption that all dividends paid are reinvested in the relevant company in the Index, whereas the Fund may receive those dividends in cash. This mismatch could result in a greater divergence between the index level (which will fluctuate depending on the performance of the companies and the assumed reinvestment of dividends) and the NAV of the Fund. The Manager's expectation is that this mismatch could lead to a far greater tracking difference than is likely to occur if the Fund continues to track the Capital Index, and that correcting this tracking difference in a manner which does not compromise Unitholders' interests could be difficult.

The Manager may charge to the Fund the costs of reducing or eliminating a tracking difference. However this will not be exercised in relation to a tracking difference that results from retaining income within the Fund as it is expected that this tracking difference will "clear" at the end of each distribution period.

11. Contingent Liabilities

There are no known contingent liabilities as at balance date (Mar 2009: nil).

12. Issued but not yet effective accounting standards

NZ IAS 7 Statement of Cash Flows states that only expenditure that results in a recognised asset can be classified as cash flow from investing activities. This change may require a reclassification of Investing Activities within the Statement of Cash Flows.

There are a number of other issued but not yet effective standards that the Fund has assessed as having either no impact or the impact has yet to be determined.

Unitholder Information

Distribution of security holders and security holdings as at 1 May 2010

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	861	32.33%	420,043	4.18%
1,001 to 5,000	1,388	52.12%	3,213,567	31.98%
5,001 to 10,000	268	10.06%	1,765,089	17.57%
10,001 to 100,000	139	5.22%	2,644,602	26.32%
100,001 and above	7	0.26%	2,004,518	19.95%
Total	2,663	100.00%	10,047,819	100.00%

20 Largest registered holders of quoted equity securities as at 1 May 2010

Full Name	Total	Percentage
NZGT Superannuation Trustees Limited <smartkiwi Growth Fund A/C>	649,883	6.47%
Custodial Services Limited <3 A/C>	552,414	5.50%
FNZ Custodians Limited	194,347	1.93%
Custodial Services Limited <2 A/C>	188,823	1.88%
NZGT Superannuation Trustees Limited <smartkiwi Balanced Fund A/C>	159,915	1.59%
Investment Custodial Services Limited <C A/C>	145,496	1.45%
Forsyth Barr Custodians Limited <1 M A/C>	113,640	1.13%
Forsyth Barr Custodians Limited <1L A/C>	86,669	0.86%
Custodial Services Limited <4 A/C>	77,494	0.77%
Custodial Services Limited <8 A/C>	59,799	0.60%
Flora Fitzherbert Rudman	52,626	0.52%
Craigs Investment Partners Limited	48,757	0.49%
Elwyn Dianne Mayall	45,461	0.45%
Andrew James Grant	41,788	0.42%
Tamaoho W Vercoe & Charles O Elliott & Beverley N Hughes <Putauaki A/C>	41,321	0.41%
Gavin Ronald Walker & Susan Eleanor Walker & William Malcom Patterson <Tralee A/C>	37,884	0.38%
Gavin Ronald Walker & Susan Eleanor Walker & William Malcom Patterson <Waiata A/C>	37,884	0.38%
Christopher Graham Paice	33,955	0.34%
Michael Lee Bowden	31,986	0.32%
Thomas William Schnackenberg & Annette Helen Schnackenberg	31,894	0.32%
	2,632,036	26.21%

Unitholder Information

Continued

Substantial Security Holders

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988 as at 1 May 2010 NZGT Superannuation Trustees Limited <smartkiwi Growth Fund A/C> was a substantial holder in the Fund with 649,883 units. The total number of units on issue at 1 May 2010 was 10,047,819.

Directors Interests in units as at 31 March 2010

	Beneficial	Non-Beneficial
Geoffrey Brown (resigned 21 May 2010)	2,793	-
Damas Potoi (resigned 6 April 2010)	-	-
Fiona Mackenzie (appointed 14 September 2009)	-	-

Waivers granted

The Special Division of New Zealand Markets Disciplinary Tribunal (formerly NZX Discipline) has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2010:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C and 3.6 – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.2.3 – Statements after Issues or Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- Appendix 2 – Minimum Holding.



Audit report

To the Unitholders of NZX Australian Midcap Index Fund

We have audited the financial statements on pages 58 to 70. The financial statements provide information about the past financial performance of NZX Australian Midcap Index Fund (“the Fund”) and its financial position as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 61 to 63.

Managers’ responsibilities

The Fund Manager is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Fund as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Auditors’ responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Manager and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Manager in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Fund’s circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no relationship with or interests in the Fund.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Fund as far as appears from our examination of those records;
- the financial statements on pages 58 to 70:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the Fund as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 25 May 2010 and our unqualified opinion is expressed as at that date.

Wellington

NZX Australian 20 Leaders Index Fund (smartOZZY)

Performance for the Financial Year ended 31 March 2010

Fund performance

For the year to 31 March 2010, the NZX Australian 20 Leaders Index fund (smartOZZY) returned positive 43.43% before the payment of any dividends. For the full year, distributions totalled 7.67 cents per unit gross*. This equated to a gross dividend yield of 1.98% based on the market close price as at 31 March 2010 (market close price at 31 March 2010: \$3.86).

smartOZZY had 28.42 million units on issue with a market capitalization of \$110.45 million as at 31 March 2010.

Index performance

The S&P/ASX 20 Accumulation Index, which includes any dividends paid, returned positive 41.36% over the year. During the last five years the S&P/ASX 20 Accumulation Index has had an annualized return of 11.06% per annum.

Performance of the S&P/ASX Midcap 20 Gross Index (NZD)



Key metrics for the Financial Year ended 31 March 2010

	31 March 2010	31 March 2009	31 March 2008	31 March 2007**	31 March 2006
S&P/ASX Midcap 20 Capital Index	2,983.84	2,665.20	3,423.34	3,609.01	3,249.97
Net assets per unit	\$3.86	\$2.67	\$3.42	\$3.61	\$3.25
Distribution per unit over year*	7.67 cents	11.54 cents	9.36 cents	11 cents	7.78 cents
Number of Unitholders	3,416	3,512	3,808	3,897	3,246
Units on Issue	28,420,664	29,918,055	31,157,798	34,665,065	35,212,428
Total value of Unitholders' funds (at close prices)	\$110,449,522	\$79,752,821	\$106,663,893	\$125,134,801	\$96,033,127

*Before the deduction of management fees

**The year end for the fund has been changed from December to March. The data quoted is for the three months to 31st March 2007



NZX Australian 20 Leaders Index Fund

Report to Unitholders



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

Presented by Smartshares Limited, Manager of the NZX Australian 20 Leaders Index Fund

Financial Statements

Statement of Comprehensive Income | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Income			
Dividends		4,104	4,874
Net changes in fair value of financial assets		34,600	(22,154)
Total Revenue		38,704	(17,280)
Management fees	7	579	545
Increase/(Decrease) in Net Assets Attributable to Unitholders Before Tax		38,125	(17,825)
Tax expense	4	1,199	1,363
Increase/(Decrease) in Net Assets Attributable to Unitholders After Tax		36,926	(19,188)

Changes in Net Assets Attributable to Unitholders | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Net assets attributable to Unitholders at beginning of period		79,744	106,352
Increase/(Decrease) in net assets attributable to Unitholders this period		36,926	(19,188)
Net subscriptions redeemed	5	(2,494)	(4,454)
Distribution accrued to Unitholders	6	(2,326)	(2,966)
Net Assets Attributable to Unitholders at End of Period		111,850	79,744

These financial statements should be read in conjunction with the notes on pages 79-87.

Balance Sheet | As at 31 March 2010

	Note	2010 \$000	2009 \$000
Current Assets			
Cash at call		880	1,371
Accounts receivable		1,074	776
Taxation receivable		79	-
Total Current Assets		2,033	2,147
Non-Current Assets			
Investments in equity securities held at fair value	8	111,778	79,672
Total Non-Current Assets		111,778	79,672
Total Assets		113,811	81,819
Current Liabilities			
Accounts payable		-	30
Taxation payable		-	91
Funds held for unit purchases		95	135
Management fees payable	7	54	25
Distribution payable to Unitholders	6	1,490	1,561
Total Current Liabilities		1,639	1,842
Non-Current Liabilities			
Deferred tax	4	322	233
Total Non-Current Liabilities		322	233
Total Liabilities excluding Net Assets Attributable to Unitholders		1,961	2,075
Net Assets Attributable to Unitholders		111,850	79,744

These financial statements should be read in conjunction with the notes on pages 79-87.

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 25 May 2010.



F MACKENZIE | CHAIRMAN
Smartshares Limited



G TAYLOR | DIRECTOR
Smartshares Limited

Cash Flow Statement | For the year ended 31 March 2010

	Note	2010 \$000	2009 \$000
Cash Flows from Operating Activities			
Cash was provided from:			
Dividends received		3,806	5,106
Cash inflows from operating activities		3,806	5,106
Cash was applied to:			
Management fees		(550)	(571)
Tax paid directly by the Fund		(1,280)	(804)
Cash outflows from operating activities		(1,830)	(1,375)
Net Cash Flows from Operating Activities		1,976	3,731
Cash Flows from Investing Activities			
Cash was applied to:			
Net payments made to Fund Manager		(31)	(499)
Cash outflows from investing activities		(31)	(499)
Net Cash Flows from Investing Activities		(31)	(499)
Cash Flows from Financing Activities			
Cash was provided from:			
Savings plan & direct purchase deposits		3,713	953
Proceeds from sale of investments		148	-
Cash inflows from financing activities		3,861	953
Cash was applied to:			
Purchase of financial assets		(3,752)	(891)
Distributions paid to Unitholders	6	(1,442)	(1,586)
Distributions paid for dividend reinvestment	6	(1,103)	(1,346)
Cash outflows from financing activities		(6,297)	(3,823)
Net Cash Flows from Financing Activities		(2,436)	(2,870)
Net (decrease)/increase in cash held		(491)	362
Opening cash balance		1,371	1,009
Cash at End of Period		880	1,371
Reconciliation of Increase/(Decrease) in Net Assets Attributable to Unitholders after Tax with Net Cash Flows from Operating Activities			
Increase/(Decrease) in net assets attributable to Unitholders		36,926	(19,188)
Less non-cash items:			
Net changes in fair value of financial assets		(34,600)	22,154
Operating movement in taxation receivable		(170)	684
Movement in deferred tax		89	(69)
Movement in management fee payable		29	(27)
Movement in accounts receivable		(298)	232
Operating movement in accounts payable		-	(55)
Net Cash Flows from Operating Activities		1,976	3,731

These financial statements should be read in conjunction with the notes on pages 79-87.

Notes to the Financial Statements

1. General Information

The NZX Australian 20 Leaders Index Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established in New Zealand under the Trustee Companies Act 1967 and a Trust Deed dated 20 January 1997. The Fund is an Issuer as defined in the Financial Reporting Act 1993 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders and distributions are confined only to dividends received from the portfolio of investments. All changes in the value of investments, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager') tracking the ASX S&P Australian 20 Leaders Index (the Index). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are listed and traded on the NZX NZSX market. Investments are valued at fair value according to last bid prices on the Australian Exchange on 31 March 2010 (see Note 8).

2. 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 to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), being the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). 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 this entity is the same as the presentation currency of these financial statements, being the New Zealand Dollar (NZD), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

2.2 Financial Assets at Fair Value through Profit or Loss

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the 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.

Notes to the Financial Statements

Continued

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

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

2.3 Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities are those activities that relate to cash contributions from or cash distributions to Unitholders.

Subscriptions subsequent to the initial public offering can be made in the form of baskets of constituent securities of the Index (i.e. not for cash) and therefore have not been included in the Cash Flow Statement. Redemptions can also be made in the form of baskets and therefore have not been included in the Cash Flow Statement.

2.4 Redeemable Units

The Fund issues redeemable units, which are redeemable at the Unitholder's option and are classified as financial liabilities. Redeemable units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus for securities of the constituent companies in proportion to the index. The redeemable unit is carried at the proportion of the Fund's net asset value at the balance sheet date.

Redeemable units are issued and redeemed at the Unitholder's option at prices based on the Fund's net assets value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders of redeemable units by the total number of outstanding redeemable 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.

2.5 Dividend Revenue

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

2.6 Distributions Payable to Holders of Redeemable Units

Dividend income from investments is attributed to Unitholders on the basis of the number of units held at the entitlement date of the income. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distribution of this income for the year ending 31 March 2010 was made as at 20 March (record date 28 February) and 20 September (record date 31 August). For the year ending 31 March 2011, distributions will be made as at 20 April (record date 31 March) and 20 October (record date 30 September).

2.7 Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity (PIE).

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method) from the entities listed in Note 8. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.8 Changes in Accounting Policies

There have been no material changes to accounting policies during the period.

2.9 Comparatives

Comparative figures where necessary have been restated to correspond to the current year classifications.

3. Financial Risk Management

The Fund's activities expose it to a variety of financial risk: market risk, credit risk, liquidity risk and currency risk. The Fund does not have exposure to interest rate risk.

3.1 Market price risk

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Fund Manager does not manage this risk.

3.2 Credit risk

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities held at fair value. The maximum credit risk of financial instruments is considered to be fair value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

	Mar 2010 \$000	Mar 2009 \$000
Cash	880	1,371
Accounts receivable	1,074	776
Investments in equity securities held at fair value	111,778	79,672

3.3 Liquidity risk

The Fund's listed securities are considered readily realisable, as they are listed on the Australian Exchange.

Notes to the Financial Statements

Continued

3.3 Currency risk

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in Australian dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

The table below summarises the Fund's exposure to currency risks.

NZD Concentration of assets and liabilities under Australian dollars (AUD)

	Mar 2010 \$000	Mar 2009 \$000
Assets		
Investments in equity securities held at fair value	111,778	79,672

4. Taxation

	Year Ended Mar 2010 \$000	Year Ended Mar 2009 \$000
Income tax expense		
Increase/(Decrease) in net assets attributable to Unitholders before tax	38,125	(17,825)
Add back management fees	579	545
Less net changes in fair value of financial assets	(34,600)	22,154
Gross up of FWT withheld on dividends	-	23
Dividends subject to FDR regime	(272)	(328)
Taxable income on FDR securities	181	255
Taxable income	4,013	4,824
Taxation at 30%	1,204	1,447
Less imputation credits, foreign withholding tax and foreign income tax credits	(15)	(63)
Prior period adjustment	10	(21)
Tax expense	1,199	1,363
Deferred Tax		
Opening balance	(233)	(302)
Current year movement	(89)	69
Closing balance	(322)	(233)
Imputation credits		
Opening balance	24	71
Prior year adjustment	-	(20)
Imputation credits received during the period	-	25
Net tax paid during the period	115	98
Credits attached to distributions paid	(135)	(150)
Credits available for future distributions	4	24
Dividend withholding payment credits		
Opening balance	33	1,321
Prior year adjustment	-	(510)
Net tax paid during the period	1,165	703
Credits attached to distributions paid	(1,168)	(1,481)
Credits available for future distributions	30	33

Notes to the Financial Statements

Continued

5. Redeemable Units

All issued units are fully paid and redeemable, and have been admitted to the official listing of the NZX NZSX market. The Fund's capital is represented by these redeemable units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Net Assets attributable to Unitholders.

To determine the net asset value of the Fund for subscriptions and redemptions, financial assets have been valued based on the last traded market prices as of the close of business on the relevant trading day.

6. Distribution to Unitholders

	Total attributed to Unitholders Mar 2010 \$000	Total attributed to Unitholders Mar 2009 \$000
Distribution payable at beginning of period	1,561	1,527
Distribution accrued to Unitholders	2,326	2,966
	3,887	4,493
Distributed to Unitholders	(2,545)	(2,932)
Transfer	148	-
Distribution payable to Unitholders	1,490	1,561

7. Related Parties

The Fund is managed by Smartshares Limited (the 'Investment Manager'), a wholly owned subsidiary of NZX Limited. Smartshares Limited receives management fees directly from the Unitholders. Under the Trust Deed the Investment Manager pays the Trustee, Custodian, Registrar and Audit charges in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total management fees for the year ended 31 March 2010 amounted to \$579,000 (March 2009 \$545,000), with \$54,000 (Mar 2009: \$25,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2010 the Fund has payables to Smartshares Limited of \$nil (Mar 2009: \$30,000).

The audit fee paid by the manager for the audit of the Fund for the year to 31 March 2010 was \$4,000 (2009: \$4,000).

8. Investments in Equity Securities held at Fair Value as at 31 March 2010

Company	Number of Securities	Fair Value A\$	Fair Value NZ\$
AMP Limited	233,851	1,461,569	1,886,139
Australia & New Zealand Banking Group Limited	289,149	7,329,927	9,459,191
BHP Billiton Limited	383,096	16,699,155	21,550,077
Brambles Limited	160,032	1,173,035	1,513,789
Commonwealth Bank of Australia	175,130	9,851,063	12,712,689
CSL Limited	66,535	2,415,221	3,116,816
Fosters Group Limited	219,966	1,159,221	1,495,962
Macquarie Bank Ltd	38,222	1,804,078	2,328,143
National Australia Bank Limited	241,941	6,655,797	8,589,233
Newcrest Mining Limited	55,224	1,811,899	2,338,236
Origin Energy Limited	99,707	1,647,160	2,125,642
QBE Insurance Group Limited	116,848	2,433,944	3,140,978
Rio Tinto Limited	49,691	3,895,277	5,026,812
Suncorp-Metway Limited	145,073	1,237,473	1,596,945
Telstra Corporation Limited	1,270,100	3,784,898	4,884,370
Westpac Banking Corporation	339,758	9,452,068	12,197,791
Westfield Group	241,704	2,914,950	3,761,711
Wesfarmers Limited	132,198	4,197,287	5,416,553
Woolworths Limited	141,476	3,958,498	5,108,399
Woodside Petroleum Limited	58,311	2,734,203	3,528,459
		86,616,723	111,777,935

All financial assets are designated at inception as being at fair value through profit or loss. The fair value of financial assets is calculated using the last bid price. The fair value of financial assets held at 31 March 2010 was A\$86,616,723. The New Zealand dollar equivalent was NZ\$111,777,935 (Mar 2009: NZ\$79,671,658), the exchange rate used was \$0.7749 (Mar 2009: 0.8262). The investments are registered in the name of JB Were (NZ) Nominees Ltd, the Custodian of the Fund.

9. Unitholders' Funds

As at 31 March 2010 there were 29,077,008 (Mar 2009: 29,918,055) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of preparing the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2010 was \$3.858 (Mar 2009: \$2.666).

NZ IFRS and IFRS require that long quoted investment positions be valued at closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2010 was \$3.844 (Mar 2009: \$2.663).

Notes to the Financial Statements

Continued

10. Events after the Balance Sheet Date

The Manager has implemented a series of changes to the Fund designed to simplify management fees and dividend distributions in respect of the Fund. The changes took effect from 1 April 2010.

The key changes are as follows:

- ▶ Simplification of the way the Fund distributes income to investors;
- ▶ Change of the management fee structure (resulting in a decrease of the management fee rate for investors who are currently in the highest fee brackets and with no increase in fee rate for any other investors); and
- ▶ Change in the method of calculation of the Net Asset Value (NAV).

Further details of the changes are set out below:

Discontinuation of Unitholder Distribution Account

The Manager has discontinued the use of the Unitholder Distribution Accounts (UDAs) for the Fund. This means that dividends and other income the Fund receives are retained in the Fund (and reflected in the unit price), and the Fund will make six-monthly distributions to Unitholders, with each Unitholder's entitlement based on the Unitholder's holding as at the Record Date for that distribution.

Management and other fees

From 1 April 2010 the Manager ceased charging management fees to the UDAs and is instead charging those fees to the Fund directly. Accordingly, management fees are reflected in the unit price, meaning a flat fee structure is achieved, rather than the tiered structure that previously applied and depended on the level of a Unitholder's investment. No investor will be charged management fees at a higher rate under the new structure.

The new fee structure from 1 April 2010 is set out to be 0.60% p.a. exclusive of GST: The management fee will be calculated daily as a percentage of the NAV of the Fund.

Calculation of Net Asset Value

Discontinuation of use of the UDAs allows the Manager to move to an "accrual-based" model for calculating the Fund's NAV (which is the basis for its unit pricing). The move to an accrual based model means that NAV per unit includes not only the value of the underlying securities held in a Fund (which is the basis on which the NAV was previously calculated), but also accrued income in relation to the portfolio (for example, dividends and tax credits) less liabilities (for example, tax expense, management fees). Please note that these examples of income and liabilities are not exhaustive and other types of income may be received and liabilities incurred from time to time.

Distributions

From 1 April 2010, a Unitholder's distribution entitlement is determined based on whether that Unitholder holds units at the Record Date set for the Fund's six-monthly distribution. Distribution rates per unit will be the same for all investors within the Fund.

The Manager is not obliged to issue units in the Fund in the period from (and including) the announcement of a distribution to (and including) the Ex Date (as defined in the NZSX Listing Rules) for that distribution (as unit issues during that period could result in an increased number of units on issue, which would in turn result in a decrease in the announced distribution on a per unit basis).

The Manager may, at its discretion, deduct from any distribution an amount of cash if and to the extent that the Manager reasonably considers that such a deduction is required to meet any liabilities that become payable in the next (or later) distribution period incurred.

Tracking error

The Fund will continue to track the Capital Index applicable to the Fund as closely as possible. However, the retention of income within the Fund may lead to increased potential for tracking error during each distribution period. At the end of each distribution period, as all income is paid out of the Fund in the form of a dividend, the tracking error should realign at that time as the income will be distributed out of the Fund (with a corresponding decrease in the Fund's NAV).

The portfolio of securities held by the Fund (which represents stocks held by the Fund in proportion to the index tracked by the Fund and does not include any income received) will continue to track the Capital Index in the same manner that the Fund has historically.

While there may be increased potential for tracking error due to the retention of income in the Fund, the Manager considers that this is outweighed by the benefits which result from the discontinuation of the UDAS and other changes to the Fund.

The Manager also considers that continuing to track the relevant Capital Index is preferable to a shift to tracking a "Gross" Index, because a Gross Index is calculated on the assumption that all dividends paid are reinvested in the relevant company in the Index, whereas the Fund may receive those dividends in cash. This mismatch could result in a greater divergence between the index level (which will fluctuate depending on the performance of the companies and the assumed reinvestment of dividends) and the NAV of the Fund. The Manager's expectation is that this mismatch could lead to a far greater tracking difference than is likely to occur if the Fund continues to track the Capital Index, and that correcting this tracking difference in a manner which does not compromise Unitholders' interests could be difficult.

The Manager may charge to the Fund the costs of reducing or eliminating a tracking difference. However this will not be exercised in relation to a tracking difference that results from retaining income within the Fund as it is expected that this tracking difference will "clear" at the end of each distribution period.

11. Contingent Liabilities

There are no known contingent liabilities as at balance date (Mar 2009: nil).

12. Issued but not yet effective accounting standards

NZ IAS 7 Statement of Cash Flows states that only expenditure that results in a recognised asset can be classified as cash flow from investing activities. This change may require a reclassification of Investing Activities within the Statement of Cash Flows.

There are a number of other issued but not yet effective standards that the Fund has assessed as having either no impact or the impact has yet to be determined.

Unitholder Information

Distribution of security holders and security holdings as at 1 May 2010

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	395	11.58	168,793	0.59%
1,001 to 5,000	1,677	49.18	4,890,745	17.21%
5,001 to 10,000	758	22.23	5,556,566	19.55%
10,001 to 100,000	561	16.45	11,266,982	39.64%
100,001 and above	19	0.56	6,537,578	23.00%
Total	3,410	100.00%	28,420,664	100.00%

20 Largest registered holders of quoted equity securities as at 1 May 2010

Full Name	Total	Percentage
FNZ Custodians Limited	1,403,139	4.94%
Investment Custodial Services Limited <C A/C>	1,215,153	4.28%
Custodial Services Limited <3 A/C>	539,171	1.90%
Courtenay Nominees Limited	458,479	1.61%
Custodial Services Limited <8 A/C>	456,640	1.61%
Michael Donald Wight & Geraldine Louise Wight	381,573	1.34%
Alan Gordon Smart	269,505	0.95%
Private Nominees Limited <Residents A/C>	253,432	0.89%
Aratrust Limited <Ara Lodge 348 IC Charitable A A/C>	241,500	0.85%
Custodial Services Limited <2 A/C>	164,997	0.58%
Flora Fitzherbert Rudman	150,000	0.53%
Nigel High & Hsiao Ming High	139,434	0.49%
Judith Anne Knowles	135,688	0.48%
Forsyth Barr Custodians Limited <1L A/C>	133,451	0.47%
Michael Donald Wight & Geraldine Louise Wight & David Leonard Gill	127,804	0.45%
Forsyth Barr Custodians Limited <1 M A/C>	125,938	0.44%
New Zealand Methodist Trust Association	120,000	0.42%
Forsyth Barr Custodians Limited <1 H A/C>	114,941	0.40%
NZ Guardian Trust Co Limited <GWL The Godden 42258900 A/C>	106,733	0.38%
Eeshala Nominees Limited	100,000	0.35%
	6,637,578	23.36%

Unitholder Information

Continued

Substantial Security Holders

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988, there were no substantial holders in the Fund as at 1 May 2010. The total number of units on issue at 1 May 2010 was 28,420,664.

Directors Interests in units as at 31 March 2010

	Beneficial	Non-Beneficial
Damas Potoi (resigned 6 April 2010)	-	-
Geoffrey Brown (resigned 21 May 2010)	-	-
Fiona Mackenzie (appointed 14 September 2009)	2,657	-

Waivers granted

The Special Division of New Zealand Markets Disciplinary Tribunal (formerly NZX Discipline) has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2010:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C and 3.6 – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.2.3 – Statements after Issues or Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- Appendix 2 – Minimum Holding.



Audit report

To the Unitholders of NZX Australian 20 Leaders Index Fund

We have audited the financial statements on pages 76 to 87. The financial statements provide information about the past financial performance of NZX Australian 20 Leaders Index Fund (“the Fund”) and its financial position as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 79 to 81.

Managers’ responsibilities

The Fund Manager is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Fund as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Auditors’ responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Manager and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Manager in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Fund’s circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no relationship with or interests in the Fund.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Fund as far as appears from our examination of those records;
- the financial statements on pages 76 to 87:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the Fund as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 25 May 2010 and our unqualified opinion is expressed as at that date.

Wellington

Corporate Governance

The Issuer of the Funds is the Manager, Smartshares Limited. The role of the Manager and its Board in relation to the management of the Funds is unlike the role of a Board in relation to the management of the business and affairs of a listed company. The Trust Deeds for the Funds contain detailed provisions about the investment of the Funds' money and the role of the Manager of the Funds. The Manager of the Funds has no role in making business decisions in relation to the Funds, and no discretion as to the how Fund assets may be invested. The nature of the business of the Funds is solely the investment in a clearly defined set of securities. The Trust deeds set out what securities can be acquired and in what circumstances those securities must be acquired and sold. Given that the Trustees maintain a regime of oversight to ensure the Manager's compliance with the detailed provisions of the Trust Deed the Manager has not adopted a code of ethics in respect of the Funds.

For the reasons set out above, much of the Corporate Governance Best Practice Code (Code) set out in Appendix 16 of the Listing Rules is not appropriate to the Manager of the Funds. This section describes the current practices of Smartshares Limited relating to corporate governance matters. It differs from the Code in a number of ways for the reasons set out above.

The Board

The Board is currently comprised of three executive Directors: Fiona Mackenzie (Chairman), Garth Taylor and Rowan Macrae. All of the Directors are employees of NZX Limited (NZX). None of the Directors are Independent Directors as defined in the NZSX Listing Rules. Services are provided to Smartshares Limited by employees of NZX. The Board is responsible for the direction and supervision of the business and affairs of the Manager and its management of the Smartshares Funds.

Committees

The Board of the Manager has one committee, an Audit Committee, comprising Mr Neil Paviour-Smith (Chairman), Mr Chris Moller (both Independent Directors of NZX) and Mr Garth Taylor. The Audit Committee meets as required. Smartshares Limited has previously adopted the audit charter of its parent company NZX, to the extent applicable. Smartshares Limited now intends adopt its own audit charter, which will be specific to its own audit committee requirements, during the coming year.

Smartshares Limited has been granted a waiver from Listing Rule 3.3.1(c), 3.6.2(a) and 3.6.2(c) to remove the requirement for the Board to have Independent Directors and to enable the Audit Committee to include an Independent Director from Smartshares Limited's parent company, NZX. The waivers have been granted on the conditions that:

- ▶ There is an Audit Committee in place for each Fund;
- ▶ The waivers and the conditions are outlined in each Fund's Half Yearly and Annual Reports;
- ▶ At least one of Smartshares Limited's Directors sits on Smartshares Limited's Audit Committee for the Funds, whenever it convenes;
- ▶ Smartshares Limited's Audit Committee for each Fund has a majority of Directors who are Independent Directors of Smartshares Limited, or Independent Directors of NZX, or both;
- ▶ Every Independent Director of NZX that sits on Smartshares Limited's Audit Committee for each Fund must provide the Special Division with written certification that they accept the obligations and responsibilities of an Audit Committee imposed by the Listing Rules in relation to the Fund;
- ▶ The Audit Committee for each Fund has full powers to require Smartshares Limited to provide any information or documents relating to any Fund which it requires to enable it to meet the obligations of an Audit Committee;
- ▶ The Directors of Smartshares Limited must respond to any recommendations made to its Board from the Audit Committee for each Fund; and
- ▶ The nature of each Fund's business and its operations do not materially change.

Smartshares Limited has no remuneration or nomination committee. There is no nomination committee because the Manager is a wholly-owned subsidiary of NZX which appoints the Board of Directors of the Manager. There is no remuneration committee as no Director receives any remuneration directly from Smartshares Limited, and the Board of Smartshares Limited consists of only three Directors. The Manager is entitled to remuneration in respect of management of the Funds. Information about the remuneration received by the Manager for the financial year ended March 2010 can be found in the financial statements for the Funds set out in this report.

