

# NZ Funds KiwiSaver Scheme

**Financial Statements for the year ended 31 March 2016**



Prepared by New Zealand Funds Management Limited

AUDITOR'S REPORT	2
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS	4
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS	5
STATEMENT OF CASH FLOWS	6
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS	8
DIRECTORY	22

## INDEPENDENT AUDITOR'S REPORT

### To the Members of the NZ Funds KiwiSaver Scheme

#### Report on the Financial Statements

We have audited the financial statements of the Income Strategy, the Inflation Strategy, the Growth Strategy ("the strategies") and the combination of those strategies ("the Scheme") on pages 4 to 19, which comprise the statements of net assets available for benefits as at 31 March 2016, statements of changes in net assets available for benefits and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the members, as a body, in accordance with the Superannuation Scheme Act 1989, the Financial Reporting Act 1993, the KiwiSaver Act 2006 and the Trust Deed governing the Scheme. Our audit has been undertaken so that we might state to the Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Strategies and the Scheme, as a body, for our audit work, for this report, or for the opinions we have formed.

#### Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation of the financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Ernst & Young provide other assurance services to the Strategies and the Scheme. We have no other relationship with, or interest in, the Strategies or the Scheme.

Partners and employees of our firm may deal with the Strategies and Scheme on normal terms within the ordinary course of trading activities of the business of the Strategies and Scheme.

### **Opinion**

In our opinion, the financial statements on pages 4 to 19:

- > comply with generally accepted accounting practice in New Zealand;
- > comply with International Financial Reporting Standards; and
- > give a true and fair view of the financial position of the Strategies and Scheme as at 31 March 2016 and their financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the Financial Reporting Act 1993, we report that:

- > We have obtained all the information and explanations that we have required.
- > In our opinion proper accounting records have been kept by the Strategies and Scheme as far as appears from our examination of those records.



6 July 2016

Auckland

# Statement of Changes in Net Assets Available for Benefits

FOR THE YEAR ENDED 31 MARCH 2016

	NOTE	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
		2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>MEMBERSHIP ACTIVITIES</b>									
<b>Contributions Received</b>									
Employer Contributions		530	421	1,835	1,438	3,276	2,538	5,641	4,397
Government Contributions		233	232	810	788	1,342	1,345	2,385	2,365
Member Contributions		1,289	1,025	4,542	3,520	6,532	5,012	12,363	9,557
Switches In		1,617	989	3,767	1,656	410	495	5,794	3,140
Transfers In from Other Schemes		2,009	1,610	5,707	6,028	10,279	10,454	17,995	18,092
<b>Total Contributions and Switches In</b>		<b>5,678</b>	<b>4,277</b>	<b>16,661</b>	<b>13,430</b>	<b>21,839</b>	<b>19,844</b>	<b>44,178</b>	<b>37,551</b>
Deduct:									
Administration Fees		(23)	(19)	(70)	(58)	(135)	(110)	(228)	(187)
Death Payments		(8)	(9)	(40)	(25)	(41)	(7)	(89)	(41)
First Home Withdrawals		(207)	(70)	(108)	(26)	(396)	(84)	(711)	(180)
Hardship Payments		(10)	(2)	(84)	(11)	(112)	(40)	(206)	(53)
Partial Payments		-	-	-	-	-	(1)	-	(1)
Invalid Enrolment		-	-	-	-	(1)	-	(1)	-
Serious Illness		(4)	-	(34)	-	(35)	-	(73)	-
Permanent Emigration		(2)	-	(4)	-	(33)	(22)	(39)	(22)
PIE Tax Expense		15	(85)	246	(290)	(122)	(753)	139	(1,128)
Retirement		(851)	(315)	(658)	(495)	(284)	(211)	(1,793)	(1,021)
Switches Out		(269)	(282)	(891)	(1,104)	(4,634)	(1,754)	(5,794)	(3,140)
Transfer Fees		(1)	(1)	(1)	(1)	(3)	(4)	(5)	(6)
Transfers Out To Other Schemes		(230)	(163)	(551)	(658)	(1,152)	(878)	(1,933)	(1,699)
<b>Net Membership Activities</b>		<b>4,088</b>	<b>3,331</b>	<b>14,466</b>	<b>10,762</b>	<b>14,891</b>	<b>15,980</b>	<b>33,445</b>	<b>30,073</b>
<b>INVESTMENT ACTIVITIES</b>									
Interest Revenue	12	-	-	-	1	1	1	1	2
Net Trading Gains		650	471	(672)	3,784	(6,324)	11,012	(6,346)	15,267
<b>Net Investment Gain</b>		<b>650</b>	<b>471</b>	<b>(672)</b>	<b>3,785</b>	<b>(6,323)</b>	<b>11,013</b>	<b>(6,345)</b>	<b>15,269</b>
<b>Expenses</b>									
Fees and Expenses	13	136	97	536	386	892	615	1,564	1,098
Manager's Expense Contributions	14	-	(3)	-	(11)	-	(15)	-	(29)
<b>Total Expenses</b>		<b>136</b>	<b>94</b>	<b>536</b>	<b>375</b>	<b>892</b>	<b>600</b>	<b>1,564</b>	<b>1,069</b>
<b>Membership and Investment Activities Before Taxation</b>		<b>4,602</b>	<b>3,708</b>	<b>13,258</b>	<b>14,172</b>	<b>7,676</b>	<b>26,393</b>	<b>25,536</b>	<b>44,273</b>
Taxation Expense		-	-	-	-	-	-	-	-
Benefits Accrued		4,602	3,708	13,258	14,172	7,676	26,393	25,536	44,273
<b>INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS</b>		<b>4,602</b>	<b>3,708</b>	<b>13,258</b>	<b>14,172</b>	<b>7,676</b>	<b>26,393</b>	<b>25,536</b>	<b>44,273</b>

The accompanying notes form part of these financial statements.

# Statement of Net Assets Available for Benefits

AS AT 31 MARCH 2016

	NOTE	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
		2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>ASSETS</b>									
Cash and Cash Equivalents		25	18	22	40	129	88	176	146
Receivables	7	31	1	222	4	172	6	425	11
Trading Portfolio Assets	8	15,377	10,828	49,759	36,863	64,859	57,750	129,995	105,441
<b>TOTAL ASSETS</b>		<b>15,433</b>	<b>10,847</b>	<b>50,003</b>	<b>36,907</b>	<b>65,160</b>	<b>57,844</b>	<b>130,596</b>	<b>105,598</b>
<b>LIABILITIES</b>									
Payables	15	47	63	70	232	131	491	248	786
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>		<b>15,386</b>	<b>10,784</b>	<b>49,933</b>	<b>36,675</b>	<b>65,029</b>	<b>57,353</b>	<b>130,348</b>	<b>104,812</b>
Represented by:									
<b>LIABILITY FOR RETIREMENT BENEFITS</b>	11	<b>15,386</b>	<b>10,784</b>	<b>49,933</b>	<b>36,675</b>	<b>65,029</b>	<b>57,353</b>	<b>130,348</b>	<b>104,812</b>

For and on behalf of the manager, New Zealand Funds Management Limited,  
who authorised the issue of these financial statements on 6 July 2016.



Phil Doak  
Director



Richard James  
Director

The accompanying notes form part of these financial statements.

# Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2016

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
<b>Cash was provided from:</b>								
Interest	-	-	-	1	1	1	1	2
Manager's Expense Contributions	1	4	4	12	6	17	11	33
Sale of Investments	1,368	1,055	1,964	2,352	7,168	4,354	10,500	7,761
	1,369	1,059	1,968	2,365	7,175	4,372	10,512	7,796
<b>Cash was applied to:</b>								
Management Fees	118	79	478	320	812	513	1,408	912
Trustee Fees	5	4	18	13	27	18	50	35
Other Expenses	9	9	32	32	47	47	88	88
Purchase of Investments	5,279	4,338	15,532	12,917	20,602	20,188	41,413	37,443
	5,411	4,430	16,060	13,282	21,488	20,766	42,959	38,478
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(4,042)</b>	<b>(3,371)</b>	<b>(14,092)</b>	<b>(10,917)</b>	<b>(14,313)</b>	<b>(16,394)</b>	<b>(32,447)</b>	<b>(30,682)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>								
<b>Cash was provided from:</b>								
Employer Contributions	530	421	1,835	1,439	3,276	2,539	5,641	4,399
Government Contributions	233	232	810	788	1,342	1,345	2,385	2,365
Member Contributions	1,289	1,025	4,542	3,520	6,532	5,012	12,363	9,557
Switches In	1,617	989	3,767	1,656	410	495	5,794	3,140
Transfers In from Other Schemes	2,009	1,610	5,707	6,028	10,279	10,454	17,995	18,092
	5,678	4,277	16,661	13,431	21,839	19,845	44,178	37,553
<b>Cash was applied to:</b>								
Administration Fees	23	19	69	58	133	109	225	186
Death Payment	8	9	41	25	41	7	90	41
First Home Withdrawal	207	70	108	26	397	84	712	180
Hardship Payments	10	2	84	10	119	33	213	45
Partial Payments	-	-	-	-	1	-	1	-
Invalid Enrolment	-	-	-	-	1	-	1	-
Serious Illness	4	-	34	-	35	-	73	-
Permanent Emigration	2	-	4	-	33	22	39	22
PIE Tax Payment	48	55	142	168	678	410	868	633
Retirement	856	310	665	488	287	208	1,808	1,006
Switches Out	269	282	891	1,104	4,634	1,754	5,794	3,140
Transfer Fees	1	1	1	1	3	4	5	6
Transfers Out	201	163	548	658	1,123	878	1,872	1,699
	1,629	911	2,587	2,538	7,485	3,509	11,701	6,958
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>4,049</b>	<b>3,366</b>	<b>14,074</b>	<b>10,893</b>	<b>14,354</b>	<b>16,336</b>	<b>32,477</b>	<b>30,595</b>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	7	(5)	(18)	(24)	41	(58)	30	(87)
Cash at Beginning of Period	18	23	40	64	88	146	146	233
<b>CLOSING CASH AND CASH EQUIVALENT CARRIED FORWARD</b>	<b>25</b>	<b>18</b>	<b>22</b>	<b>40</b>	<b>129</b>	<b>88</b>	<b>176</b>	<b>146</b>

The accompanying notes form part of these financial statements.

# Statement of Cash Flows (continued)

FOR THE YEAR ENDED 31 MARCH 2016

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>RECONCILIATION OF CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS TO CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Increase in Net Assets Available for Benefits	4,602	3,708	13,258	14,172	7,676	26,393	25,536	44,273
Add/(Less) Items Classified as Financing Activities:								
Employer Contributions	(530)	(421)	(1,835)	(1,439)	(3,276)	(2,539)	(5,641)	(4,399)
Government Contributions	(233)	(232)	(810)	(788)	(1,342)	(1,345)	(2,385)	(2,365)
Member Contributions	(1,289)	(1,025)	(4,542)	(3,520)	(6,532)	(5,012)	(12,363)	(9,557)
Switches In	(1,617)	(989)	(3,767)	(1,656)	(410)	(495)	(5,794)	(3,140)
Transfers In from Other Schemes	(2,009)	(1,610)	(5,707)	(6,028)	(10,279)	(10,454)	(17,995)	(18,092)
Administration Fees	23	19	69	58	133	109	225	186
Death Payments	8	9	41	25	41	7	90	41
First Home Withdrawals	207	70	108	26	397	84	712	180
Hardship Payments	10	2	84	10	119	33	213	45
Partial Payments	-	-	-	-	1	-	1	-
Invalid Enrolment	-	-	-	-	1	-	1	-
Serious Illness	4	-	34	-	35	-	73	-
Permanent Emigration	2	-	4	-	33	22	39	22
PIE Tax Expense	48	55	142	168	678	410	868	633
Retirement	856	310	665	488	287	208	1,808	1,006
Switches Out	269	282	891	1,104	4,634	1,754	5,794	3,140
Transfer Fees	1	1	1	1	3	4	5	6
Transfers Out	201	163	548	658	1,123	878	1,872	1,699
Add/(Less) Movements in Working Capital Items:								
Increase in Trading Portfolio Assets	(4,549)	(3,753)	(12,896)	(14,350)	(7,109)	(26,846)	(24,554)	(44,949)
Decrease in Receivables	(30)	1	(218)	2	(166)	1	(414)	4
Increase/(Decrease) in Payables	(16)	39	(162)	152	(360)	394	(538)	585
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(4,042)</b>	<b>(3,371)</b>	<b>(14,092)</b>	<b>(10,917)</b>	<b>(14,313)</b>	<b>(16,394)</b>	<b>(32,447)</b>	<b>(30,682)</b>

The accompanying notes form part of these financial statements.



# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 1. REPORTING ENTITIES

The reporting entity is the NZ Funds KiwiSaver Scheme ('the Scheme') which comprises the Income Strategy; the Inflation Strategy; and the Growth Strategy ('the Strategies'). On 27 November 2015, Corporate Trust Limited (trading as Foundation Corporate Trust) retired as the Trustee of the Scheme and The New Zealand Guardian Trust Company Limited was appointed as the Trustee of the Scheme. The Scheme is governed by the NZ Funds KiwiSaver Scheme Master Trust Deed dated 21 September 2010 (as amended and consolidated on 26 June 2014) ('Trust Deed'). Units in the Scheme are offered under a registered prospectus. The Scheme is a defined contribution scheme and is registered under the KiwiSaver Act 2006. The registration number is 10072. Under the terms of the Trust Deed, contributions can be made by or on behalf of the Scheme's members, by their employers and by the Government. The retirement benefits are determined by contributions to the Scheme together with net investment earnings on these contributions over the period of the membership. The Trust Deed sets out the basis on which the Scheme can be terminated.

New Zealand Funds Management Limited ('NZ Funds') is the Manager of the Scheme. Aon New Zealand is the administration manager of the Scheme ('Administration Manager'). The Scheme is incorporated and resident in New Zealand. The registered office of the Scheme is the same as NZ Funds, refer to the *Directory* for details.

## 2. BASIS OF PREPARATION

### a) Statement of compliance

The Scheme's financial statements have been prepared in accordance with the Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), the Superannuation Schemes Act 1989, the KiwiSaver Act 2006, the KiwiSaver Amendment Act 2011, the Financial Reporting Act 1993 and the Trust Deed. They comply with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. These financial statements also comply with International Financial Reporting Standards ('IFRS').

### b) Going concern

The financial statements have been prepared on a going concern basis. NZ Funds is not aware of any material uncertainty that may cast significant doubt on the Scheme's ability to continue as a going concern.

### c) Basis of measurement

The financial statements have been prepared on a fair value basis, except for assets classified as loans and receivables, and liabilities classified as payables, which are carried at amortised cost.

### d) Functional and presentation currency

Items included in the financial statements of the Scheme are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Scheme primarily operates in New Zealand, issuing securities predominantly to New Zealand clients and carrying out its day-to-day business activities in New Zealand. The financial statements are prepared in New Zealand Dollars ('NZD'), which is the Scheme's functional and reporting currency. Where indicated, financial information presented in NZD has been rounded to the nearest thousand.

### e) Use of estimates

In preparing the financial statements in conformity with NZ IFRS, NZ Funds is required to make certain estimates, judgements and assumptions that affect reported income, expenses, assets and liabilities. The key judgements required in preparing these financial statements relate to the determination of fair value for financial instruments. Please refer to Note 3(h) *Significant accounting policies* for details.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently to all years presented in these financial statements.

### a) Classification

The Scheme adopts the following categories of financial instruments in accordance with accounting standards governing the classification and valuation of financial instruments:

- (i) Financial assets or liabilities at fair value through the changes in net assets available for benefits (held for trading). These include trading portfolio assets;
- (ii) Loans and receivables. These include cash and cash equivalents, interest receivable and other receivables from NZ Funds; and
- (iii) Financial liabilities measured at amortised cost. These represent amounts payable to the Trustee, NZ Funds, members, service providers and other accruals.

### b) Recognition

The Scheme uses trade date accounting when recording trading portfolio assets. The trade date is the date that an entity commits itself to purchase or sell an asset. On the trade date, the Scheme recognises an asset to be received and the liability to pay for it, derecognises an asset that is sold, and recognises any gain or loss on disposal and a receivable from the buyer for payment. Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date, when title passes.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### c) Derecognition

The Scheme may enter into transactions where it transfers financial assets recognised on its Statement of Net Assets Available for Benefits, but retains either all of the risks and rewards of the transferred assets, or a portion of them. If all, or substantially all, the risks and rewards are retained, the transferred assets are not derecognised from the Statement of Net Assets Available for Benefits.

For transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Scheme derecognises the financial asset to the extent that control over the financial asset is lost. If the Scheme has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

### d) Cash and cash equivalents

Cash and cash equivalents comprise deposits and call accounts with banks. Cash equivalents are short-term investments that are, in most circumstances, convertible to known amounts of cash.

### e) Receivables

Receivables are initially recognised at fair value, and are subsequently measured at their amortised cost using the effective interest method, less provision for impairment losses.

### f) Translation of foreign currencies

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Statement of Changes in Net Assets Available for Benefits.

### g) Trading portfolio assets

Trading portfolio assets consist of investments in unit trusts and/or managed funds. Investments in trading portfolio assets are carried at fair value. Gains and losses realised on disposal or redemption, and unrealised gains and losses from changes in the fair value of trading portfolio assets, are reported as net trading gains/(losses) in the Statement of Changes in Net Assets Available for Benefits. Interest revenue on trading portfolio assets is included in interest revenue in the Statement of Changes in Net Assets Available for Benefits.

### h) Determination of fair value

The determination of fair value for financial assets and financial liabilities is based on quoted market prices from active markets. If such quoted prices are not available, the fair value of the financial instrument is determined using valuation techniques. Valuation techniques include using arm's length market transactions, reference to the current market value of another similar financial instrument, discounted cash flow analysis and valuation models.

Inputs to valuation models are taken from observable markets where feasible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include consideration of various factors used in the inputs to the valuation models. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### i) Derivative instruments

The Scheme may use derivative instruments for trading purposes. Derivative instruments are recognised initially at fair value and transaction costs are expensed immediately. After initial recognition, derivative instruments are carried at fair value. Gains/(losses) realised on disposal and unrealised gains/(losses) from changes in the fair value of derivatives are reported as net trading gains/(losses) in the Statement of Changes in Net Assets Available for Benefits.

### j) Past due, impaired and restructured assets

Past due assets are assets that have not been paid for by the counterparty when contractually due. Impaired assets are assets where the present value of expected future cash flows discounted at the original effective interest rate is less than the carrying value. Restructured assets are assets where the terms of a contract have been changed due to a counterparty having difficulty in complying with the original terms of the contract.

If an asset is impaired, the asset is written down to its estimated recoverable amount. The estimated recoverable amount is calculated as the present value of expected future cash flows discounted at the original effective interest rate, and an impairment loss is recognised in the Statement of Changes in Net Assets Available for Benefits.

### k) Offsetting

Financial assets and liabilities are offset and the net amount presented in the Statement of Net Assets Available for Benefits when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

### l) Interest revenue

Interest revenue is recognised using the effective interest method.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### m) Net trading gains/(losses)

Net trading gains/(losses) comprise gains less losses related to trading portfolio assets. This includes all realised and unrealised fair value changes and foreign exchange differences.

### n) Fees and expenses

The Scheme incurs fees and expenses for a range of services it receives from various service providers. Fees and expenses are accrued as services are rendered. Administration and transfer fees are deducted from members' accounts and recognised as part of Membership Activities in the Statement of Changes in Net Assets Available for Benefits. Administration and transfer fees payable on behalf of members are recognised in the Statement of Net Assets Available for Benefits.

### o) Taxation

The Scheme is a Portfolio Investment Entity ('PIE'). Under the PIE regime detailed in the Income Tax Act 2007, income is effectively taxed in the hands of the members and therefore income tax expense is not recognised by the Scheme. The tax liability arising on income is allocated to members and satisfied either by the cancellation of their units held in the Scheme, or by the members personally. As a consequence, deferred tax is also not recognised. The Scheme settles any PIE tax receivables and payables on behalf of the members.

The taxable income, deductible expenses and tax credits are attributed to members in accordance with their proportionate interests in the Scheme, and recognised as part of Membership Activities in the Statement of Changes in Net Assets Available for Benefits.

Net taxation receivable or payable on behalf of the members under the PIE regime is recognised in the Statement of Net Assets Available for Benefits.

### p) Goods and Services Tax ('GST')

The Scheme is not registered for GST. All components of the financial statements are stated as inclusive of GST where applicable.

### q) Net assets available for benefits

Net Assets Available for Benefits is represented by the Liability for Retirement Benefits and is the Scheme's present obligation to pay benefits to members and has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the liabilities as at balance date. Accrued benefits include amounts allocated to members' accounts. As all accrued benefits are allocated to members, no amounts have been allocated to reserves.

### r) Changes to accounting policies

There have been no changes to the accounting policies for the year ended 31 March 2016.

### s) New accounting standards issued but not yet effective

NZ IFRS 9 (2014) is the final version of NZ IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of NZ IFRS 9. The effective date of the standard is for annual periods beginning on or after 1 January 2018.

An entity may elect to apply earlier versions of NZ IFRS 9 if, and only if, the entity's relevant date of initial application is before 1 February 2015. Otherwise, early application is only permitted if the complete version of NZ IFRS 9 is adopted in its entirety for reporting periods beginning after 4 September 2014. The transition to NZ IFRS 9 differs by requirements and is partly retrospective and partly prospective. Despite the requirement to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10-11 of NZ IFRS 7 *Financial Instruments: Disclosures*.

The impact this standard will have on the Scheme's financial statements is still to be determined.

The Scheme does not plan to early adopt the above standard.

## 4. COMMENCEMENT OF BUSINESS

The Scheme was established on 21 September 2010, and was opened to members from 15 October 2010. It accepted its first member on 1 November 2010, and accordingly, the Scheme's commencement of business date is 1 November 2010.

## 5. AMENDMENT TO THE TRUST DEED

There have been no amendments to the Trust Deeds for the year ended 31 March 2016.

## 6. PRINCIPAL BUSINESS ACTIVITY

The principal business activity of the Scheme is to invest in financial instruments.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 7. RECEIVABLES

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Expense contributions receivable from NZ Funds	-	1	-	4	-	6	-	11
PIE tax receivables	20	-	222	-	172	-	414	-
Other receivables	11	-	-	-	-	-	11	-
<b>TOTAL RECEIVABLES</b>	<b>31</b>	<b>1</b>	<b>222</b>	<b>4</b>	<b>172</b>	<b>6</b>	<b>425</b>	<b>11</b>

## 8. TRADING PORTFOLIO ASSETS

The Scheme invests substantially all of its assets in the trusts established under the Trust Deed Relating to the Issue of Units Other Than to the Public, for which New Zealand Funds Superannuation Limited is the trustee ('NZFS trusts') (refer to Note 16 *Related party*).

	INVESTMENTS IN TRADING PORTFOLIO ASSETS	
	2016 \$000	2015 \$000
Income Strategy	15,377	10,828
Inflation Strategy	49,759	36,863
Growth Strategy	64,859	57,750
<b>TOTAL OF THE SCHEME</b>	<b>129,995</b>	<b>105,441</b>

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### a) Overview

The Scheme's risks discussed below are:

- (i) Market risk - the risk of loss arising from exposure to interest rate risk, currency risk and/or other price risk;
- (ii) Credit risk - the risk of loss arising from a counterparty failing to meet its contractual obligations; and
- (iii) Liquidity risk - the risk that the Scheme is unable to meet payment obligations when due.

In the investment management of the Scheme and the Scheme's investments in the NZFS trusts, NZ Funds uses an active investment management approach. The active investment management approach seeks to maintain a balance between preserving capital and growing wealth in a manner that is consistent with the Scheme's objectives. This approach may expose the Scheme to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by NZ Funds.

In the investment management of the Scheme and the Scheme's investments in the NZFS trusts, NZ Funds may take a wide variety of actions. These actions may include, but are not limited to: altering the proportion invested in each security or asset class; altering the manner in which the Scheme is exposed to each security or asset class; investing directly or indirectly; using derivatives and/or collective investment vehicles; applying hedging; taking short positions; or using leverage. This is referred to as active investment management.

An active investment management approach is subject to different risks (which may be considered higher risks) than a non-active investment management approach. As a result, the active investment management approach may cause the returns and capital stability of the Scheme to significantly differ from the returns and capital stability of the underlying securities or asset classes utilised, and/or any benchmark index.

The way in which the active investment approach is implemented will change. This will result in the Scheme ultimately being constructed with different combinations of assets, underlying investment managers and investment strategies. In order to allow these changes to occur, the Scheme requires a wide investment mandate. The Trust Deed provides that the Scheme may ultimately invest in a very wide range of assets.

NZ Funds has developed internal investment guidelines as part of its investment management process which assist in the oversight of the Scheme. These guidelines are designed to ensure that the Scheme invests in accordance with its investment objectives and risk profile.

Due to NZ Funds' active investment management approach, the guidelines may be exceeded from time to time. Where this occurs, the Scheme is either realigned to come within the guidelines, or the guidelines are changed to reflect a change in the implementation of NZ Funds' active investment management of the Scheme. It is therefore anticipated that the guidelines will change.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The Scheme invests substantially all of its assets in the NZFS trusts. This may expose the Scheme to concentration risk. Please refer to Note 16 *Related party*.

### b) Risk mitigation structure

The responsibility for the Scheme's risk management lies with NZ Funds which, at reporting date, has delegated certain aspects to committees, meetings and individuals as set out below:

- (i) Investment Committee - reports to the NZ Funds Board, with the purpose of overseeing the NZ Funds' investment process, including responsibility for formulating and approving the Scheme's internal investment guidelines, identifying and monitoring investment risks, and monitoring investment performance.
- (ii) Investment Guidelines Meeting - reports to the Investment Committee, responsible for oversight of the investment policies and internal investment guidelines.
- (iii) Portfolio Managers Meeting - reports to the Investment Committee, responsible for discussing and reviewing Scheme construction.
- (iv) Research meeting - reports to the Investment Committee, responsible for discussing and reviewing security research.
- (v) Business Risk Committee - reports to the NZ Funds Board, with the purpose of overseeing the NZ Funds' operational risk management process, including responsibility for reviewing and monitoring operational risk and compliance in relation to the provision of advice, portfolio valuation and pricing, registry services, infrastructure and operations, and NZ Funds' workplace.
- (vi) Offer and Audit Committee - reports to the NZ Funds Board, with the purpose of overseeing the NZ Funds' offering of securities to the public, the integrity of fund financial management and reporting, and the fund external audit process, including responsibility for all regulated communications.
- (vii) Portfolio Managers - responsible for identifying and managing investment risks within each Strategy's internal investment guidelines.

### c) Risk measurement

The Scheme's risks are measured by:

- (i) Using an assessment of the expected loss likely to arise for a given market movement; and/or
- (ii) Using actual historical volatility of the Scheme; and/or
- (iii) Using statistical modelling which may or may not be adjusted for NZ Funds' active investment management approach; and/or
- (iv) Using practical industry or corporate knowledge.

### d) Market risk

Market risk is the risk of loss arising from exposure to interest rate risk, currency risk and/or equity price risk. Market risk is incurred by the Scheme through trading activities and holding financial instruments. A transaction may be exposed to a number of market risks.

The Scheme's investments in the NZFS trusts are treated as equity instruments, therefore the Scheme is exposed to equity price risk. However, the underlying financial instruments of the NZFS trusts frequently include financial instruments that are not equity instruments. Consequently, the Scheme is likely to be indirectly exposed to a variety of risks other than equity price risk. It is determined that these indirect exposures are captured in the equity price risk disclosure. It is also determined that credit risk arising on equity instrument exposure is captured in the equity price risk disclosure.

In incurring market risk, the Scheme and the Scheme's investments in the NZFS trusts, may use an active investment management approach. This may expose the Scheme to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by NZ Funds. Additionally, the Scheme's ability to directly or indirectly use leverage, and/or derivatives, and/or take short positions may increase these risks.

Concentration of market risk could exist if the Scheme has significant positions in a single financial instrument, or aggregate positions in several financial instruments. The Scheme's exposure to investments in the NZFS trusts is set out in Note 16 *Related party*.

Market risk is measured as per 9(c) and mitigated as per 9(b).

#### (i) Interest rate risk

Interest rate risk is the risk of loss arising from exposure to interest rates. Interest rate risk is incurred by the Scheme through trading activities and holding financial instruments.

In incurring interest rate risk, the Scheme and the Scheme's investments in the NZFS trusts, may use an active investment management approach. This may expose the Scheme to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by NZ Funds. Additionally, the Scheme's ability to directly or indirectly use leverage, and/or derivatives, and/or take short positions may increase these risks.

Sensitivity to interest rate risk is expressed as the impact on carrying values of a 0.5% change in interest rates (2015: 0.1%). This sensitivity has been calculated using the historical volatility of New Zealand short-term interest rates, and a one standard deviation move is assumed.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### d) Market risk (continued)

Concentration of interest rate risk could exist if the Scheme has significant positions in a single financial instrument exposed to interest rate risk, or aggregate positions in several financial instruments exposed to interest rate risk.

Interest rate risk is measured as per 9(c) and mitigated as per 9(b).

DIRECT EXPOSURE OF FINANCIAL INSTRUMENTS TO INTEREST RATE RISK	2016 \$000	2015 \$000
Income Strategy	25	18
Inflation Strategy	22	40
Growth Strategy	129	88
<b>TOTAL OF THE SCHEME</b>	<b>176</b>	<b>146</b>

INCREASE/(DECREASE) IN NET ASSETS AVAILABLE FOR BENEFITS BASED ON THE ESTIMATED INTEREST INCOME MOVEMENT	\$ IMPACT GIVEN 0.5% INCREASE IN RATES	\$ IMPACT GIVEN 0.5% DECREASE IN RATES	\$ IMPACT GIVEN 0.1% INCREASE IN RATES	\$ IMPACT GIVEN 0.1% DECREASE IN RATES
	2016 \$000	2016 \$000	2015 \$000	2015 \$000
Income Strategy	-	-	-	-
Inflation Strategy	-	-	-	-
Growth Strategy	1	(1)	-	-
<b>TOTAL OF THE SCHEME</b>	<b>1</b>	<b>(1)</b>	<b>-</b>	<b>-</b>

Actual trading results are likely to differ from the sensitivity analysis required by NZ IFRS 7 *Financial Instruments: Disclosures* and the differences could be significant.

### (ii) Currency risk

Currency risk is the risk of loss arising from exposure to foreign currency. Currency risk is incurred by the Scheme through trading activities and holding financial instruments.

In incurring currency risk, the Scheme and the Scheme's investments in the NZFS trusts, may use an active investment management approach. This may expose the Scheme to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by NZ Funds. Additionally, the Scheme's ability to directly or indirectly use leverage, and/or derivatives, and/or take short positions may increase these risks.

Sensitivity to currency risk is expressed as the impact on carrying values of a percentage change in exchange rates. This sensitivity is calculated using the historical volatility of NZD, and a one standard deviation move is assumed.

Concentration of currency risk could exist if the Scheme has significant positions in a single financial instrument exposed to currency risk, or aggregate positions in several financial instruments exposed to currency risk.

Currency risk is measured as per 9(c) and mitigated as per 9(b).

The Scheme has no direct currency exposure in the current year (2015: nil). Indirect currency exposure is considered part of equity price risk.

### (iii) Equity price risk

Equity price risk is the risk of loss arising from exposure to equity prices. Equity price risk is incurred by the Scheme through trading activities and holding financial instruments.

The Scheme's investments in the NZFS trusts are treated as equity instruments, therefore the Scheme is exposed to equity price risk. However, the underlying financial instruments of the NZFS trusts frequently include financial instruments that are not equity instruments. Consequently, the Scheme is likely to be indirectly exposed to a variety of risks other than equity price risk. It is determined that these indirect exposures are captured in the equity price risk disclosure. It is also determined that credit risk arising on equity instrument exposure is captured in the equity price risk disclosure.

In incurring equity price risk, the Scheme and the Scheme's investments in the NZFS trusts, may use an active investment management approach. This may expose the Scheme to active investment management risk. Active investment management risk is the risk of loss arising from investment decisions made by NZ Funds. Additionally, the Scheme's ability to directly or indirectly use leverage, and/or derivatives, and/or take short positions may increase these risks.

Sensitivity to equity price risk is expressed as the impact on carrying values of a range of changes in equity prices, as set out below in the table Increase/(Decrease) in Net Assets Available for Benefits Based on the Estimated Equity Price Movement. This sensitivity has been calculated using the historical volatility of the asset classes that the NZFS trusts have indirectly invested into, and a one standard deviation move is assumed.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### d) Market risk (continued)

Concentration of equity price risk could exist if the Scheme has significant positions in a single financial instrument exposed to equity price risk, or aggregate positions in several financial instruments exposed to equity price risk. The Scheme's exposure to investments in the NZFS trusts are set out in Note 16 *Related party*. The NZFS trusts are domiciled in New Zealand.

Equity price risk is measured as per 9(c) and mitigated as per 9(b).

EXPOSURE OF FINANCIAL INSTRUMENTS TO EQUITY PRICE RISK	2016 \$000	2015 \$000
Income Strategy	15,377	10,828
Inflation Strategy	49,759	36,863
Growth Strategy	64,859	57,750
<b>TOTAL OF THE SCHEME</b>	<b>129,995</b>	<b>105,441</b>

INCREASE/(DECREASE) IN NET ASSETS AVAILABLE FOR BENEFITS BASED ON THE ESTIMATED EQUITY PRICE MOVEMENT	CHANGE IN EQUITY PRICE RELATIVE TO EXPOSURE TO EQUITY PRICE RISK	\$ IMPACT GIVEN MARKET PRICES INCREASE	\$ IMPACT GIVEN MARKET PRICES DECREASE	CHANGE IN EQUITY PRICE RELATIVE TO EXPOSURE TO EQUITY PRICE RISK	\$ IMPACT GIVEN MARKET PRICES INCREASE	\$ IMPACT GIVEN MARKET PRICES DECREASE
	2016 %	2016 \$000	2016 \$000	2015 %	2015 \$000	2015 \$000
Income Strategy	3.8	584	(584)	2.6	282	(282)
Inflation Strategy	8.9	4,429	(4,429)	8.0	2,949	(2,949)
Growth Strategy	12.0	7,783	(7,783)	12.8	7,392	(7,392)
<b>TOTAL OF THE SCHEME</b>		<b>12,796</b>	<b>(12,796)</b>		<b>10,623</b>	<b>(10,623)</b>

Actual trading results are likely to differ from the sensitivity analysis required by NZ IFRS 7 *Financial Instruments: Disclosures* and the differences could be significant.

### e) Credit risk

Credit risk is the risk of loss arising from exposure to counterparties. Credit risk is incurred by the Scheme through trading activities and holding financial instruments. The Scheme's ability to directly or indirectly use leverage, and/or derivatives, and/or take short positions may increase these risks.

For risk management purposes, credit risk arising on equity instruments is captured in the equity price risk exposure.

Concentration of credit risk could exist if the Scheme has significant exposure to a single counterparty, or aggregate exposure to several counterparties. For risk management purposes, the Scheme's credit exposure to investments in the NZFS trusts set out in Note 16 *Related party*, is considered equity price risk and is captured in the equity price risk exposure.

Credit risk is measured as per 9(c) and mitigated as per 9(b).

The Scheme has cash and cash equivalents with ANZ Bank New Zealand Limited which has a Standard and Poor's short-term credit rating of A-1+.

DIRECT CREDIT RISK	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<i>Breakdown of credit exposure</i>								
Cash and cash equivalents	25	18	22	40	129	88	176	146
Receivables	31	1	222	4	172	6	425	11
<b>TOTAL CREDIT EXPOSURE NET OF PROVISION FOR IMPAIRMENT</b>	<b>56</b>	<b>19</b>	<b>244</b>	<b>44</b>	<b>301</b>	<b>94</b>	<b>601</b>	<b>157</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### f) Liquidity risk

Liquidity risk is the risk that the Scheme is unable to meet payment obligations when due. Liquidity risk is incurred by the Scheme through trading activities and holding financial instruments.

The Scheme is exposed to liquidity risk because of the possibility that the Scheme could be required to pay its liabilities or redeem its units earlier than expected, and/or because the Scheme's financial instruments are not saleable within a given timeframe, and/or because the Scheme's financial instruments are not saleable for fair value within a given timeframe. The Scheme is exposed to unit redemptions on a regular basis. Additionally, the Scheme's ability to directly or indirectly use leverage, and/or derivatives, and/or take short positions may increase these risks.

As set out in Note 11 *Liability for retirement benefits*, provided the members satisfy the redemption requirements of the Scheme, there is no requirement for them to provide a redemption notice prior to an intention to redeem.

Concentration of liquidity risk could exist if the Scheme has significant positions in a single financial instrument or counterparty, or aggregate positions in several financial instruments or counterparties which become illiquid. The Scheme's exposure to investments in the NZFS trusts are set out in Note 16 *Related party*.

Liquidity risk is measured as per 9(c) and mitigated as per 9(b).

#### Financial assets

The maturity groupings are based on the earlier of either the remaining period from the end of the year to the contractual maturity date, or the expected date by which an asset will be realised.

#### Financial liabilities

The maturity groupings are based on the earlier of either the remaining period from the end of the year to the contractual maturity date, or, where counterparties have a choice of when an amount is to be paid, the earliest period by which the Scheme can be required to pay.

CONTRACTUAL MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>FINANCIAL ASSETS</b>								
<i>On demand/due within 30 days</i>								
Cash and cash equivalents	25	18	22	40	129	88	176	146
Receivables	31	1	222	4	172	6	425	11
Trading portfolio assets	15,377	10,828	49,759	36,863	64,859	57,750	129,995	105,441
<b>TOTAL</b>	<b>15,433</b>	<b>10,847</b>	<b>50,003</b>	<b>36,907</b>	<b>65,160</b>	<b>57,844</b>	<b>130,596</b>	<b>105,598</b>
<b>FINANCIAL LIABILITIES</b>								
<i>On demand/due within 30 days</i>								
Payables	47	63	70	232	131	491	248	786
Liability for retirement benefits	15,386	10,784	49,933	36,675	65,029	57,353	130,348	104,812
<b>TOTAL</b>	<b>15,433</b>	<b>10,847</b>	<b>50,003</b>	<b>36,907</b>	<b>65,160</b>	<b>57,844</b>	<b>130,596</b>	<b>105,598</b>

## 10. USE OF ESTIMATES AND VALUATION OF FINANCIAL INSTRUMENTS

### FAIR VALUE BASIS

#### Financial assets and liabilities recorded at fair value

Assets in the Scheme's trading portfolios are recorded at fair value on the Statement of Net Assets Available for Benefits, with changes in fair value recorded in net trading gains/(losses) in the Statement of Changes in Net Assets Available for Benefits. While in some cases, a degree of judgement is required in establishing fair values, NZ Funds believes the fair values recorded in the Statement of Net Assets Available for Benefits and the changes in the fair values recorded in the Statement of Changes in Net Assets Available for Benefits, are based on the policies and processes that NZ Funds employs.



# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 10. USE OF ESTIMATES AND VALUATION OF FINANCIAL INSTRUMENTS (CONTINUED)

According to NZ IFRS 13 *Fair Value Measurement*, a three level hierarchy of disclosures is required for financial instruments measured at fair value. The three levels are defined below:

- (i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities; or
- (ii) Level 2: inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (e.g. as prices) or indirectly (e.g. derived from prices); or
- (iii) Level 3: inputs for the asset or liability that are not based on observable market data.

The Scheme has direct investments in trading portfolio assets of which fair values are classified as Level 2. The Scheme does not have direct investments in financial instruments classified as either Level 1 or Level 3. There were no transfers between Level 1, Level 2 and Level 3 during the year.

The Scheme's trading portfolio assets include investments in unlisted unit trusts which are not quoted in an active market. Investments in these unit trusts are valued based on the Net Asset Value per unit calculated by the administrator or manager of these unit trusts on a regular basis.

Due to the short-term nature of financial assets and liabilities recorded at amortised cost, it is assumed that the carrying amount of these instruments approximates their fair value.

The following table shows the financial instruments recognised at fair value, analysed for those whose fair values are based on Level 2:

LEVEL 2 INVESTMENT	INCOME STRATEGY LEVEL 2		INFLATION STRATEGY LEVEL 2		GROWTH STRATEGY LEVEL 2		TOTAL OF THE SCHEME LEVEL 2	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Trading portfolio assets:								
Unlisted unit trusts	15,377	10,828	49,759	36,863	64,859	57,750	129,995	105,441

## 11. LIABILITY FOR RETIREMENT BENEFITS

Upon receiving a valid redemption notice, and provided that the member satisfies the redemption requirements of the Scheme, the Scheme will redeem units in accordance with the Trust Deed. Proceeds are paid to the member within 35 days of a redemption request being received and processed by the Administration Manager. The total expected cash outflow on redemption equals the amount of Net Assets Available for Benefits of the Scheme.

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2016 000	2015 000	2016 000	2015 000	2016 000	2015 000	2016 000	2015 000
Units on issue at the beginning of the year (in number of units)	8,938	6,107	27,457	18,899	35,220	23,670	71,615	48,676
Units issued (in number of units)	4,687	3,601	12,858	10,563	13,838	14,085	31,383	28,249
Units cancelled (in number of units)	(1,361)	(770)	(1,995)	(2,005)	(4,775)	(2,535)	(8,131)	(5,310)
<b>UNITS ON ISSUE AT THE END OF THE YEAR (IN NUMBER OF UNITS)</b>	<b>12,264</b>	<b>8,938</b>	<b>38,320</b>	<b>27,457</b>	<b>44,283</b>	<b>35,220</b>	<b>94,867</b>	<b>71,615</b>
<b>LIABILITY FOR RETIREMENT BENEFITS</b>								
Balance at the beginning of the year (in \$000)	10,784	7,076	36,675	22,503	57,353	30,960	104,812	60,539
Change in accrued benefits (in \$000)	4,602	3,708	13,258	14,172	7,676	26,393	25,536	44,273
<b>BALANCE AT THE END OF THE YEAR (IN \$000)</b>	<b>15,386</b>	<b>10,784</b>	<b>49,933</b>	<b>36,675</b>	<b>65,029</b>	<b>57,353</b>	<b>130,348</b>	<b>104,812</b>
Represented by:								
Balance allocated to members' accounts (in \$000)	15,379	10,774	49,914	36,648	64,930	57,277	130,223	104,699
Balance not yet allocated to members' accounts (in \$000)	7	10	19	27	99	76	125	113
<b>LIABILITY FOR RETIREMENT BENEFITS (IN \$000)</b>	<b>15,386</b>	<b>10,784</b>	<b>49,933</b>	<b>36,675</b>	<b>65,029</b>	<b>57,353</b>	<b>130,348</b>	<b>104,812</b>
<b>NET ASSETS AVAILABLE FOR BENEFITS PER UNIT (\$)</b>	<b>1.25</b>	<b>1.21</b>	<b>1.30</b>	<b>1.34</b>	<b>1.47</b>	<b>1.63</b>	<b>1.37</b>	<b>1.46</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 11. LIABILITY FOR RETIREMENT BENEFITS (CONTINUED)

There were member contributions of \$124,597 (2015: \$112,916) received but not yet allocated at 31 March 2016. These were subsequently allocated as issued units in the following year.

## 12. INTEREST REVENUE

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<i>Breakdown by asset class</i>								
Cash and cash equivalents	-	-	-	1	1	1	1	2
<b>TOTAL INTEREST REVENUE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>

## 13. FEES AND EXPENSES

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Fees to auditors:								
Audit fees	1	2	3	7	5	10	9	19
Management fees	122	83	490	338	821	547	1,433	968
Other professional fees	2	4	6	13	9	18	17	35
Expense reimbursements	6	4	21	15	32	21	59	40
Trustee fees	5	4	16	13	25	19	46	36
<b>TOTAL FEES AND EXPENSES</b>	<b>136</b>	<b>97</b>	<b>536</b>	<b>386</b>	<b>892</b>	<b>615</b>	<b>1,564</b>	<b>1,098</b>

Other professional fees consist principally of legal fees.

## 14. MANAGER'S EXPENSE CONTRIBUTIONS

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Manager's expense contributions	-	(3)	-	(11)	-	(15)	-	(29)
<b>TOTAL MANAGER'S EXPENSE CONTRIBUTIONS</b>	<b>-</b>	<b>(3)</b>	<b>-</b>	<b>(11)</b>	<b>-</b>	<b>(15)</b>	<b>-</b>	<b>(29)</b>

Until the Scheme's total assets reached a sufficient size, NZ Funds paid for some of the Scheme's expenses.

## 15. PAYABLES

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Accruals	4	3	11	13	17	20	32	36
Administration fees payable	2	2	6	5	12	10	20	17
Benefits payable	29	5	4	9	29	11	62	25
Management fees payable	12	9	47	36	71	62	130	107
PIE tax payable	-	43	-	166	-	384	-	593
Trustee fees payable	-	1	2	3	2	4	4	8
<b>TOTAL PAYABLES</b>	<b>47</b>	<b>63</b>	<b>70</b>	<b>232</b>	<b>131</b>	<b>491</b>	<b>248</b>	<b>786</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 16. RELATED PARTY

### a) Overview

NZ Funds is the manager and issuer of the Scheme. NZ Funds' senior management are significant indirect shareholders in NZ Funds.

### b) Underlying investment portfolios and their trustee

The Scheme invests substantially all of its assets into the NZFS trusts. The NZFS trusts are New Zealand unit trusts, for which NZ Funds is the manager and New Zealand Funds Superannuation Limited is the Trustee. New Zealand Funds Superannuation Limited is a wholly owned subsidiary of NZ Funds.

The Scheme and the NZFS Trusts are governed by different Trust Deeds and are supervised by different Trustees. This means the Scheme does not control any of the NZFS Trusts, and cannot make investment and/or administrative decisions for them, even if a Strategy owns more than 50% of the units of a NZFS Trust.

The gross value of investment transactions in the NZFS trusts for the year and the balance of investments are detailed in Table 1 as follows:

TABLE 1	PURCHASES		(REDEMPTIONS)		BALANCE OF INVESTMENTS	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Income Strategy	5,279	4,338	(1,368)	(1,055)	15,377	10,828
Inflation Strategy	15,532	12,917	(1,964)	(2,352)	49,759	36,863
Growth Strategy	20,602	20,188	(7,168)	(4,354)	64,859	57,750
<b>TOTAL OF THE SCHEME</b>	<b>41,413</b>	<b>37,443</b>	<b>(10,500)</b>	<b>(7,761)</b>	<b>129,995</b>	<b>105,441</b>

### c) Portfolio fees

Management fees, reimbursable expenses and manager's expense contributions incurred or received during the year are detailed below.

TABLE 2	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Management fees incurred	122	83	490	338	821	547	1,433	968
Expense reimbursements incurred	6	4	21	15	32	21	59	40
Manager's expense contributions received	-	(3)	-	(11)	-	(15)	-	(29)

The outstanding net management fees, expense reimbursements and manager's expense contributions as at 31 March 2016 and 31 March 2015 are payable or receivable on normal trading terms as follows:

TABLE 2A	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Net amounts payable to NZ Funds at reporting date	13	8	49	33	74	59	136	100

No related party debts were forgiven or written off during the year (2015: nil).

The Scheme does not employ key management personnel. Management services are provided by NZ Funds. The following is a summary of significant investment transactions in the Scheme during the year, and the investment balances in the Scheme as at 31 March 2016 and 31 March 2015, by key management personnel employed by NZ Funds, and their close family members.

TABLE 3	BALANCE OF HOLDINGS		NET CONTRIBUTIONS/ (WITHDRAWALS)	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Income Strategy	202	101	91	26
Inflation Strategy	939	575	377	169
Growth Strategy	1,646	1,615	179	263
<b>TOTAL OF THE SCHEME</b>	<b>2,787</b>	<b>2,291</b>	<b>647</b>	<b>458</b>

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2016

## 16. RELATED PARTY (CONTINUED)

Contributions by key management personnel include member, government and employer contributions.

## 17. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

No significant capital commitments or contingent liabilities exist as at 31 March 2016 (2015: nil) for the Scheme.

## 18. CONCENTRATION OF FUNDING

The Scheme is funded by the issue of units to members who live, or normally live, in New Zealand. Only individuals can become members of the Scheme.

## 19. VESTED BENEFITS

Vested benefits are benefits, the rights of which, under the conditions of the Scheme, are not conditional on continued membership.

Vested benefits as at 31 March 2016 for the Income Strategy are \$15,386,168 (2015: \$10,783,523), Inflation Strategy are \$49,933,437 (2015: \$36,675,472) and the Growth Strategy are \$65,029,362 (2015: \$57,352,492).

## 20. GUARANTEED BENEFITS

No guarantees have been made in respect of any part of vested benefits (2015: nil).

## 21. MEMBERSHIP MOVEMENTS

The number of members and their movement in the Scheme are detailed below:

	OPENING BALANCE	NEW MEMBERS	(WITHDRAWALS)	CLOSING BALANCE
	01/04/2015			31/03/2016
Income Strategy	5,545	1,176	(209)	6,512
Inflation Strategy	5,517	1,175	(196)	6,496
Growth Strategy	5,582	1,219	(189)	6,612
<b>TOTAL OF THE SCHEME</b>	<b>5,781</b>	<b>1,248</b>	<b>(172)</b>	<b>6,857</b>

Members with investments in more than one Strategy, at the Scheme level, are represented as having only one membership. Therefore, the total membership and member movements in the Scheme will not equal to the subtotal of each individual Strategy.

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